JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION
OF THE VIRGINIA GENERAL ASSEMBLY

INTERIM REPORT

Review of State Spending

COMMISSION DRAFT
December 10, 2001

SUMMARY

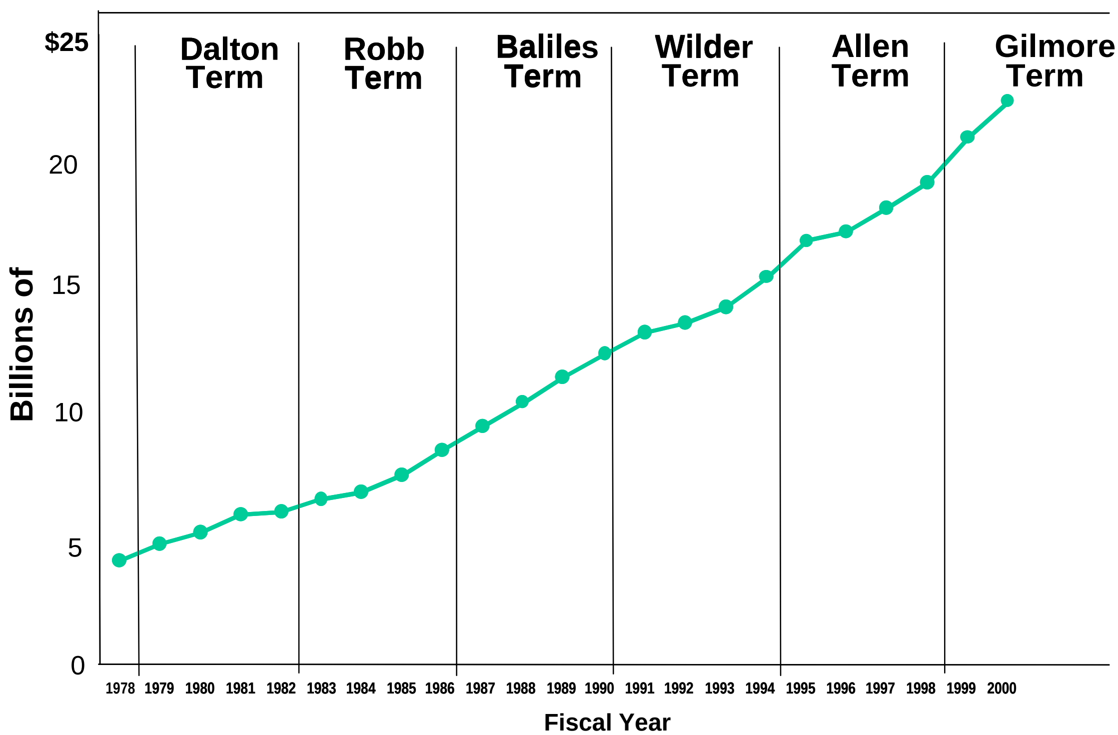
State spending grew from $5.7 billion in FY 1981 to $21.4 billion per year in FY 2000, an overall increase of 274 percent. The average annual growth rate for Virginia appropriations was 7.3 percent. These upward trends led to the concerns addressed in this report: Why did spending grow so much? Which spending components grew fastest, and why? How accurate were the forecasts of revenue growth that were used to build budgets? Has State government's performance improved along with the increased spending? These are some of the concerns addressed in this report, the first in a series of JLARC reports on State spending.

The 2001 General Assembly adopted two mandates directing JLARC to review expenditure growth and related concerns. House Joint Resolution 773 calls for JLARC to analyze six topics related to expenditure growth and improving the efficiency of State government. House Bill 2865 added §30-58.3 to the *Code of Virginia,* requiring JLARC to develop an annual report on State expenditure growth and efficiency in Virginia government. Both mandates are included in Appendix A.

Change in Virginia, 1981-2000

State spending grew along with many other indicators of life in Virginia. Virginia became a more populous and richer State between 1981 and 2000. State spending grew in response to substantial growth in almost every category of persons served by State programs, whether Medicaid recipients, child support recipients, college students, State park visitors, or prison inmates.

Virginia Expenditures for All Functions, FY 1978– FY 2000



Source: Consolidated Annual Financial Reports, 1978-2000, Department of Accounts.

Virginia's population increased 32 percent between 1980 and 2000, growing from 5.3 million to 7.1 million persons. State government had the resources to respond to this increasing population due to growth in other key aspects of Virginia's economy. Total employment in the State, for example, increased 60 percent between 1981 and 2000, from 2.2 million to 3.5 million persons employed. Total personal income, such as wages, salaries, dividend and interest income, and transfer payments, grew 176 percent over this period.

Inflation was a major factor during the 20-year period of this review, going up 90 percent. Adjusting for the effects of inflation shows spending grew

107 percent over the period. Placing inflation-adjusted spending on a per-capita basis to adjust for the population increase, Virginia spending increased 56 percent, from approximately $2,000 to $3,100 per-capita (in constant dollars), an average annual increase of 2.8 percent.

Spending on State services grew not only in response to inflation and the needs of an increased population, but also due to federal and State decisions to meet increased citizen demands for services and to provide higher levels of services and benefits to more persons. Federal requirements for programs such as Medicaid, child support enforcement, and transportation caused State spending to increase. Major State initiatives to improve elementary and secondary education, higher education, transportation, public safety, and the environment took place during the 20-year period examined in this study, all of which had the effect of increasing costs to the State. Changes in tax policy also affected State spending, as by the close of this period Virginia began phasing out the personal property tax, an initiative which quickly became a significant State outlay.

Although Virginia spent substantially more in FY 2000 than in FY 1981, the Commonwealth's ranking among the 50 states actually declined in terms of per-capita state spending. Virginia's rank decreased one position, from 36th to 37th on this measure between FY 1981 and FY 1998, the most recent year for which data were available. Substantial increases in spending appear to have been the norm in the other states over this period.

Revenue Forecasting

An outgrowth of this JLARC staff review was a request by Commission members for staff to assess the accuracy of Virginia's general fund revenue forecasting. This effort updates a 1991 JLARC report on the State's revenue forecasting process.

Revenues are forecasted through a multi-step process, involving a variety of agencies and personnel. The Department of Taxation takes the lead in forecasting general fund revenues, using information from various State agencies and from two consulting firms to forecast the performance of the State economy as well as the general fund. Statutes require a six-year forecast of general funds, and outline a process requiring a review of the forecast by two groups: the Governor's Advisory Board of Economists (GABE) and the Governor's Advisory Council on Revenue Estimates (GACRE). Legislative involvement in the revenue forecast is limited to participation on GACRE by certain members of the legislative leadership.

Two findings from the 1991 JLARC report remain valid: there is always some difference between the forecast and actual collections, and the further out a forecast is from the end of the fiscal year being predicted, the less accurate the forecast tends to be. Forecasting error is also correlated with the business cycle – forecasts tend to call for too much revenue during economic slowdowns, and to predict too little revenue during economic expansions.

During the period from FY 1981 to FY 2000, the absolute error for the forecasts made about 24 to 26 months from the end of a year (the accuracy of the second year estimate used in the first Appropriation Act of a biennium) was

6.5 percent. The absolute error for the forecasts made 12 to 14 months from the end of a year (the accuracy of the first year estimate used in the first Appropriation Act of a biennium, and the second year estimate in the second Appropriation Act of the biennium) was 3.8 percent. The absolute error for the one-quarter out forecasts (forecasts of the current year of the biennium) was still less, at 1.0 percent.

The State has some safeguards against revenue shortfalls. For example, the General Assembly may amend and adjust any year's appropriations at least twice – through second year and "caboose" or final Appropriation Acts. Second, the Governor may adjust expenditures, within certain limits, as revised forecasts become available. A third important means of coping with a revenue shortfall is the revenue stabilization fund. To some extent, this fund operates as a hedge against "downside" forecast error, because if the forecast calls for substantially more revenue than actually becomes available, the stabilization fund may be tapped to provide some funds, subject to various conditions.

Components of Spending Growth

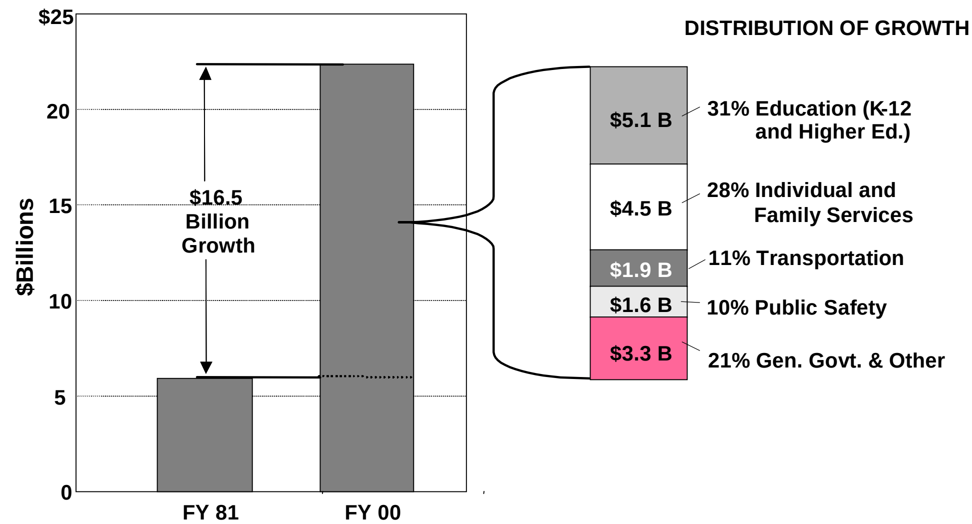
Not every State agency and program experienced as much growth as suggested by the overall growth in State spending. Some grew faster, others grew much more slowly or were level-funded (received no budget increases) for several years, and others experienced both reductions and increases during the period. Numerous agencies and programs were abolished, consolidated, and reorganized, making it difficult to track longer-term trends. There were also specific initiatives undertaken during this 20-year period that helped shape the State's overall spending pattern.

Two of the broad functions of State government accounted for nearly three-fifths of the overall budget increase (in dollar terms, unadjusted for either population growth or inflation). Figure 2 indicates that education (including elementary and secondary education as well as the institutions of higher education) accounted for $5.1 billion or 31 percent of the total State spending growth. Second largest in terms of dollar growth was the broad function of individual and family services, accounting for $4.5 billion of the growth, or 28 percent. This function includes Medicaid, welfare, child support enforcement, mental health programs, and related activities.

Looking at individual agencies with the largest increases (in terms of total appropriation dollars) shows a similar finding. The Department of Education had the largest dollar increase, followed in order by the colleges and universities (taken together due to the similarity of their missions), the Department of Medical Assistance Services (the State's Medicaid agency), the Virginia Department of Transportation, and the Department of Social Services.

This review also identified budget programs which grew the most and which are not conventional State agencies with employees and offices, but instead are related activities grouped together in the State budgeting and accounting system. Some budget programs are common to more than one agency (such as the budget program called "administrative and support

Growth and Composition of State Budget Between FY 1981 and FY 2000



Source: JLARC staff analysis.

services"), but many of the fastest growing programs are administered by only one agency.

Appropriations for the broad function of education, which includes elementary and secondary education, the State's colleges and universities, and other post-secondary education programs, grew the most between FY 1981 and FY 2000. Two education budget programs accounted for most of the growth in this broad function: financial assistance for public education, which includes funding for the standards of quality (SOQ) required by the *Constitution of Virginia,* and the education and general programs in higher education, which includes funding for a variety of higher education instruction-related activities.

Medical assistance services – the core Medicaid budget program – was the program with the most growth in spending, measured on a percentage basis, within the broad function of individual and family services over the 20-year period under review. Second within this broad function was child support enforcement in the Department of Social Services; most of this appropriation consists of payments by non-custodial parents for their children’s court-ordered support. The third largest budget growth in this function was in State health services, which includes in-patient medical and mental health services in State supported hospitals, such as those operated by the University of Virginia and the Department of Mental Health, Mental Retardation, and Substance Abuse Services.

Four programs – highway system acquisition and construction; highway system maintenance; crime detection, apprehension and investigation; and secure confinement – were the fastest growing budget programs within the broad functions of transportation and administration of justice.

Several initiatives were undertaken between 1981 and 2000 that also had the effect of increasing State spending. Some of these initiatives are profiled in this report, including the “HB 599” program, the revenue stabilization fund, and the personal property tax relief program. Together with the 1986 transportation initiative, these four initiatives accounted for $1.4 billion, or seven percent of the FY 2000 budget.

The Development of Performance Measures in Virginia

One of the mandates for this review (HJR 773) focuses on whether performance measurement can be used effectively to guide program improvement. Although Virginia has, in many ways, a model system of strategic planning and performance management and has been recognized nationally, it is a system still in a developmental stage. The overall system of performance management is under the general supervision of the Department of Planning and Budget (DPB), which has provided agencies with training, guidance, and a web site posting agency measures and other performance information.

Only limited use is made of State-level performance information in decision making, oversight, management, or planning. At the agency level, use of performance information varies widely. Some agencies make little use of the system at any level. Others effectively use the information as part of their day-to-day operations. Several agencies have been recognized nationally for their internal use of performance information, including the Virginia Retirement System, the Department of Motor Vehicles, the Department of Mines, Minerals, and Energy, and the Department of Taxation.

Performance measures have been developed for all Virginia executive branch agencies. These measures are posted on *Virginia Results,* the internet-based planning and performance site maintained by DPB. During FY 2000 audits, the Auditor of Public Accounts (APA) tested 89 out of about 700 agency measures, focusing on those that were relevant to financial management. These audits found the information provided in the 89 measures to be 99 percent accurate. The APA found that agencies met or exceeded targeted performance levels in 51 percent of the measures, and did not meet the targeted performance level in 45 percent of the measures. The APA also identified an instance where an agency dropped a performance measure because performance was declining. Agencies should be required to provide a period of notice prior to dropping a performance measure or removing one from *Virginia Results.*

JLARC staff reviewed performance measures for two agencies (the Department of Motor Vehicles and the Department of Medical Assistance Services) and found the measures to generally reflect some important agency objectives, while not addressing other important areas. While this is consistent with a system under development, consideration should be given in the future to developing measures that address all of an agency's key missions.

As scrutiny of performance measures increases, through posting on a public web site, through regular audits by the Auditor of Public Accounts, and through JLARC reviews, it is possible that agency management will devote more time to the function and attempt to more fully integrate the development of State-level performance measures into their managerial and budgetary practices.

Agency Profiles

This report includes a series of agency profiles intended to provide additional detail about how and why the State budget grew over the 20 years since FY 1981. JLARC staff identified the largest agencies in terms of their FY 2000 total appropriation, and collected extensive data from them during the course of this review. A key issue was for each agency to explain the growth in its budget since FY 1981. Additional information was requested in order to provide a more complete profile of each agency's activities.

The profiles recap the agency's history and organization, an overview of its budget, a comparison of how key agency characteristics changed over time, the appropriation history of the agency, and explanations for the principal changes in the agency's budget. Each profile also presents pie charts of the agency's FY 2000 revenues and expenditures, along with a discussion of the major programs in the agency and a summary of its performance measures.

Profiles of nine of the largest agencies, in terms of total appropriations, are included in this report. Additional information on these and other agencies will be provided in a later JLARC report.

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I. Introduction

The 2001 General Assembly adopted two measures directing JLARC to review expenditure growth and related matters. House Joint Resolution 773 calls for JLARC to analyze six topics related to expenditure growth and improving the efficiency of State government. House Bill 2865 added §30-58.3 to the *Code of Virginia*, requiring JLARC to develop an annual report on State expenditure growth and efficiency in Virginia government. Both HB 2865 and HJR 773 are included in Appendix A.

These two legislative initiatives call for identifying the largest and fastest growing programs, a review of the causes of expenditure growth, and the identification of indistinct and inefficient programs, as well as programs that could be consolidated. HJR 773 also requires an assessment of the use of performance measures and performance budgeting, and an analysis of the operations and expenditures of State funds by private organizations.

This report is the first in a series of JLARC reports which respond to these requirements. This report provides an overview of State spending since 1981 and provides background information on the State budget process and the revenue forecasts upon which the budget is built. This report also profiles some major State agencies and programs that drove State spending during this period, and discusses the role of performance measurement in the budget process and program improvement. Future reports will address other aspects of the study mandates, and provide more information about overall budget growth.

GROWTH IN STATE SPENDING

Annual State spending grew from $5.7 billion per year in FY 1981 to $21.4 billion per year in FY 2000, an overall increase of 274 percent (Figure 1). The average annual growth rate for Virginia appropriations was a robust 7.3 percent.

General fund appropriations grew faster than the overall budget, at 315 percent during these two decades (Table 1). Average annual growth in the general fund during this period was 7.9 percent. Average annual growth in non-general fund spending, at 6.7 percent, was lower than the overall average.

These upward trends led to some of the concerns addressed in this study: Why did spending grow so much? Did Virginia spending outpace inflation or population growth during this period? Which spending components grew fastest? These concerns will be addressed in this report.

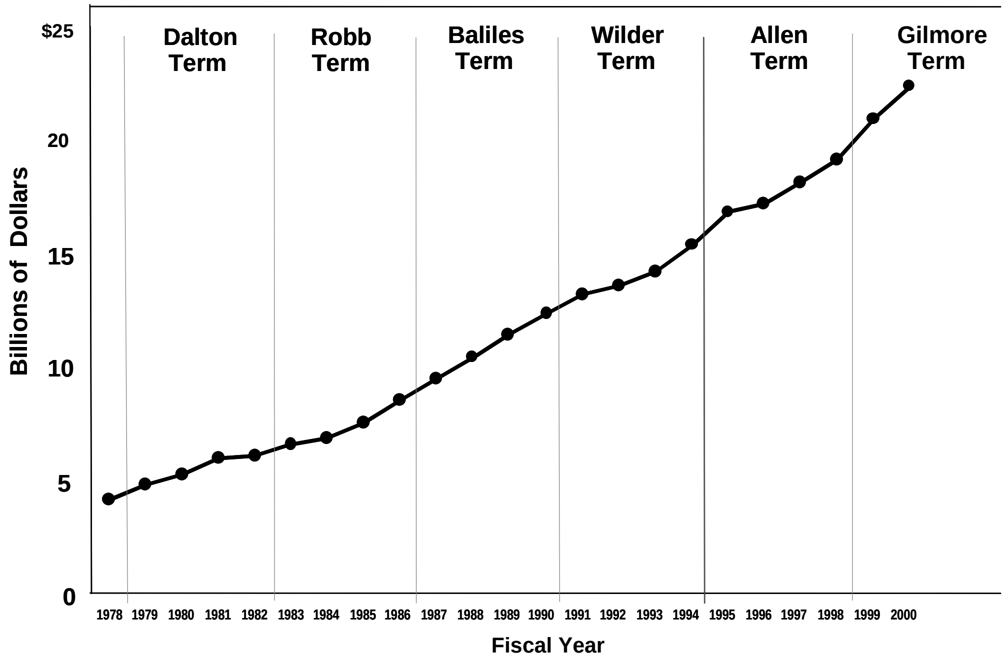
Societal Factors Underlying Spending Growth

State spending grew along with many other aspects of life in Virginia (Table 2). State government spending grew while Virginia was becoming a more populous and richer State. State spending grew in response to substantial growth in almost every category of persons served by State programs, whether Medicaid recipients, child support recipients, park visitors, or prison inmates. State spending also grew in response to federal requirements and initiatives in many areas of government.

The costs of State services increased not only due to inflation, but also due to State decisions to meet citizen demands for services and to provide higher

Figure 1

Virginia Expenditures for All Functions, FY 1978 – FY 2000



Source: Comprehensive Annual Financial Reports, 1978-2000, Department of Accounts.

levels of services and benefits to more persons. Major State initiatives to improve public education, higher education, transportation, and public safety took place during the 20-year period of this study, all of which had the effect of increasing costs. By the close of this period, Virginia began phasing out the personal property tax, an initiative which quickly became a significant State expenditure.

Population Growth. A key factor in Virginia's spending growth was the 32 percent increase in the State's population between 1980 and 2000, from 5.3 million to 7.1 million people. This growth did not occur uniformly in all regions, however. The Northern Virginia localities (those in the Washington primary metropolitan statistical area, or PMSA) experienced population growth of 25 percent, from 1.7 to 2.2 million persons, during the second half of this period

Table 1

Appropriations for Operating Expenses, 1981-2000 (in Millions)

Fiscal Year	General Funds	Non-General Funds	Total	Percent Change
1981	$2,672.1	$3,036.3	$5,708.4	--
1982	$2,901.6	$3,139.3	$6,040.9	5.8%
1983	$3,098.3	$3,378.7	$6,477.0	7.2%
1984	$3,256.3	$3,585.9	$6,842.2	5.6%
1985	$3,753.5	$3,928.5	$7,682.0	12.3%
1986	$4,032.6	$4,236.3	$8,268.9	7.6%
1987	$4,599.8	$4,751.3	$9,351.1	13.1%
1988	$4,943.3	$5,078.0	$10,021.3	7.2%
1989	$5,618.7	$5,764.7	$11,383.4	13.6%
1990	$5,989.1	$5,847.4	$11,836.5	4.0%
1991	$6,314.8	$6,305.3	$12,620.1	6.6%
1992	$6,140.5	$6,717.3	$12,857.8	1.9%
1993	$6,401.5	$7,525.8	$13,927.3	8.3%
1994	$6,777.3	$7,908.8	$14,686.1	5.4%
1995	$7,355.7	$8,498.1	$15,853.8	8.0%
1996	$7,589.7	$8,702.0	$16,291.7	2.8%
1997	$8,134.4	$8,996.7	$17,131.1	5.2%
1998	$8,715.5	$8,905.2	$17,620.7	2.9%
1999	$9,967.4	$9,994.7	$19,962.1	13.3%
2000	$11,093.4	$10,275.6	$21,369.0	7.0%
20-Year Growth Rate	**315%**	**238%**	**274%**	
20-Year Average Annual Growth Rate	**7.9%**	**6.7%**	**7.3%**	

Note: Dollars shown are nominal (not adjusted for inflation). Excludes transfers and capital outlay.

Source: Department of Planning and Budget.

(between 1990 and 2000). On the other hand, other parts of Virginia have experienced declines in population and employment. For example, between 1990 and 2000, six counties and 17 cities experienced population losses.

Table 2

Some Ways Virginia Changed Between 1981 and 2000

Category	1981	2000	Percent Change
Population	5,346,818	7,078,515	32%
Total Employment	2,160,800	3,463,700	60%
Registered Vehicles	3,823,055	6,313,411	65%
Personal Income	$61,469,582	$217,092,333	253%
State Budget (total appropriations)	$5,708,446,505	$21,368,967,256	274%
Average State Employee Salary	$13,445	$33,176	147%
Elementary & Secondary Education Enrollment (average daily membership)	1,024,334	1,122,191	10%
Undergraduate Tuition & Fees (in-State; UVA)	$1,044	$4,130	296%
Medicaid-Eligible Recipients	288,254	674,127	134%
State Inmate Population	8,363	30,394	263%
State Park Visitors	3,717,954	6,319,300	70%
Enrollment at State Supported 4-year Colleges & Universities	123,292	152,934	24%

Note: Dollars shown are nominal (not adjusted for inflation).

Source: JLARC staff review.

The State budget in many cases has grown and changed in response to these population shifts, as agencies and programs responded to regional gains and losses in caseloads, enrollments, and populations. A larger population means more school children, more college students, more Medicaid recipients, more licensed drivers -- and the need to expand State funding and services to keep pace with the increasing population. A population loss, on the other hand, may generate a need for economic development-oriented activities in an attempt to attract and retain businesses and people.

Growth in Personal Income. Virginia had the resources to respond to the overall increase in population largely due to growth in the personal income of the State's population. As the State's population grew, the individual income tax grew as a share of the State's general fund, from about 42 percent of the general fund in FY 1975 to 64 percent in FY 2000 (there was no change in the income tax rates during this period). At the same time, personal income grew substantially.

The total personal income of Virginia's population grew from $61 billion in 1981 to $217 billion by 2000. On a per-capita basis, personal income (including all wages, salaries, personal dividend and interest income, transfer payments, and other sources) grew 176 percent, from $11,291 in 1980 to $31,162 at the end of 2000.

Virginia's personal income grew because of growth and change in the State's economy during the 20-year timeframe of this review. Employment among Virginia's residents expanded faster than the State's population, as the proportion of the population who work increased during this period. Employment in Virginia increased by 60 percent between 1981 and 2000, to 3.5 million.

Once centered on the federal government and manufacturing, by the late 1990s Virginia's economy came to be dominated by service industries, especially business services in northern Virginia. This shift in Virginia's economy is a striking feature of the last 20 years. In 1980, the services sector employed 408,000 Virginians and provided earnings totaling $6.3 billion. By 2000, this sector employed over 1.1 million Virginians and generated earnings of $52.7 billion – a 177 percent increase in employment and a 277 percent increase in earnings (in inflation-adjusted terms).

Earnings grew faster than employment in the services sector, resulting in higher per-capita incomes and providing for more taxable income. By contrast, employment in the manufacturing sector of the State's economy actually declined six percent over the same period, with an 11 percent increase in earnings (again, in inflation-adjusted terms).

Adjusting for Inflation and Population Growth. Two factors – inflation and population growth – explain much, but not all, of Virginia's spending growth. Inflation diminishes the purchasing power of the dollar, making goods and services more costly. Between 1981 and 2000, the consumer price index for all urban consumers (CPI-U), the most popular measure of inflation, increased 90 percent. This means that an item that cost $1.00 in 1981 would typically have cost $1.90 in 2000.

Taking inflation (as measured by the CPI-U) out of the 20-year spending trend results in the slower but still significant growth of 107 percent shown in Figure 2. In other words, even after taking into account the effect of inflation, significant growth remains in Virginia's spending.

Placing inflation-adjusted expenditures on a per-capita basis controls for the effects of both inflation and the population increase between 1980 and 2000 (Figure 3). On this basis, Virginia spending increased 56 percent, from approximately $2,000 to $3,100 per-capita. The average annual growth rate for inflation-adjusted spending per-capita was 2.8 percent. Much of this growth was due to specific policy initiatives and agency-based increases that will be discussed in Chapter II of this report, and in future JLARC reports.

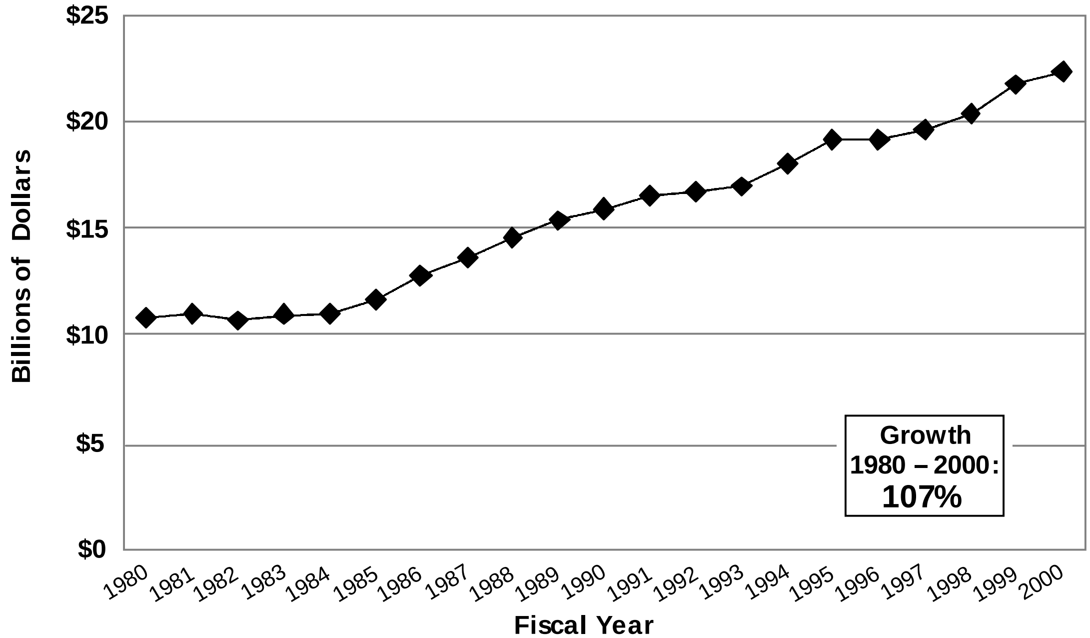
The State's economy and budget did not grow in equal amounts year by year during this period, but reflected the national economic cycle of growth and slowdowns. Economic slowdowns in the early 1980s and again in the early 1990s can be seen even after the effects of inflation and population growth are removed, in Figures 2 and 3. State spending growth nonetheless re-appeared following these slowdowns.

Economic growth within Virginia has also been uneven. The most striking feature over the 20-year period of this review is the growth of Northern Virginia, while at the same time other areas of Virginia continued to decline. The metropolitan Washington area, led largely by Northern Virginia, has become one of the major job creation centers in America, rivaling major Sunbelt cities. By

Figure 2

Inflation-Adjusted Expenditures, FY 1980 – FY 2000

(in FY 2000 Dollars)

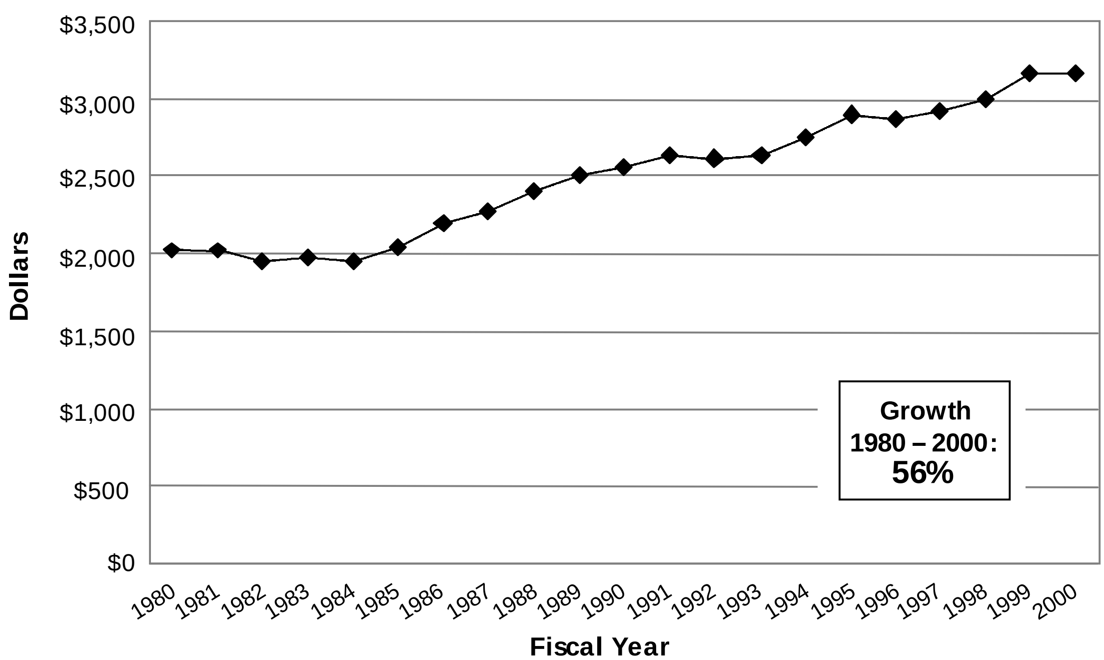


Source: Comprehensive Annual Financial Reports, 1980-2000, Department of Accounts.

Figure 3

Inflation-Adjusted Expenditures Per Capita, FY 1980 – FY 2000

(in FY 2000 Dollars)



Source: Comprehensive Annual Financial Reports, 1980-2000, Department of Accounts.

contrast, other areas of Virginia have lost population, as already noted, and employment.

Federal and State Mandates and Initiatives. The costs of State services increased not only due to inflation and population increases, but also due to State and federal decisions to provide higher levels of services and benefits to more persons. Major State initiatives to improve public education, higher education, transportation, and public safety took place during the 20-year period of this study, all of which had the effect of increasing costs. By the close of this period, Virginia began phasing out the personal property tax, an initiative which quickly became a significant State expenditure.

Changing federal requirements and funding initiatives also affected State spending. The federal government has required States to implement a variety of new programs and activities, and provided matching and incentive funds for States and localities to commence or expand a wide range of services. Examples of these federal requirements include:

- service expansions in Medicaid, such as health insurance for children up to a prescribed percentage of federal poverty guidelines, and disproportionate share payments to hospitals treating large numbers of uninsured patients,
- enforcement of court-ordered child support payments (these payments constitute a significant part of the budget growth within the Virginia Department of Social Services), and
- substantial increases in federal financial assistance for highway construction.

Other federal initiatives, such as the “devolution” of previously federally funded programs to the State and local levels, also impacted the State budget.

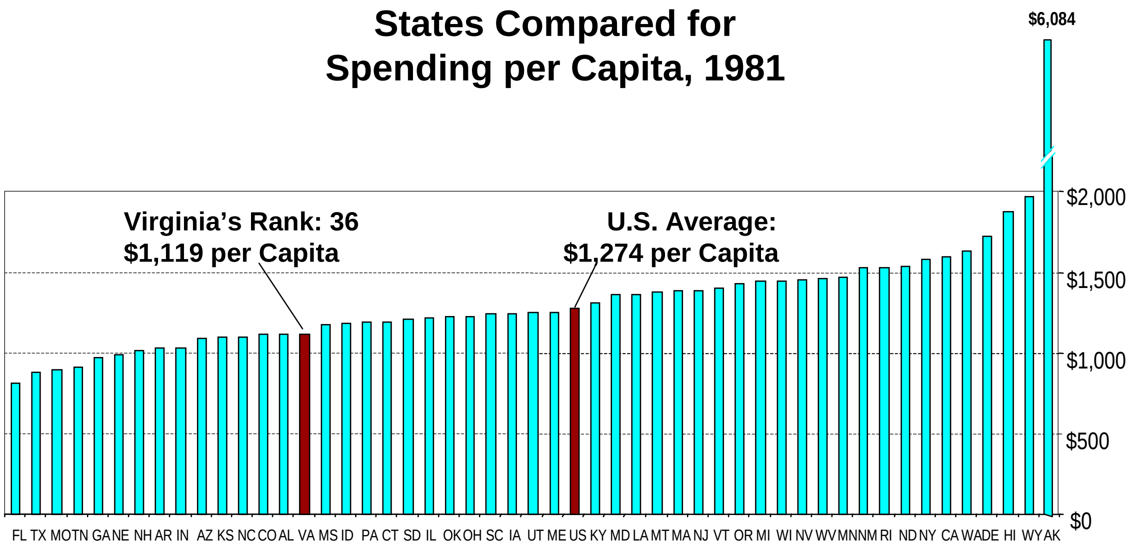
Yet another factor that tended to increase State expenditures was the relatively technical matter of treating certain payments, such as those for child support and college tuition, as nongeneral State funds and appropriating them though the State budget process. These and other impacts on State spending will be profiled in a future JLARC report.

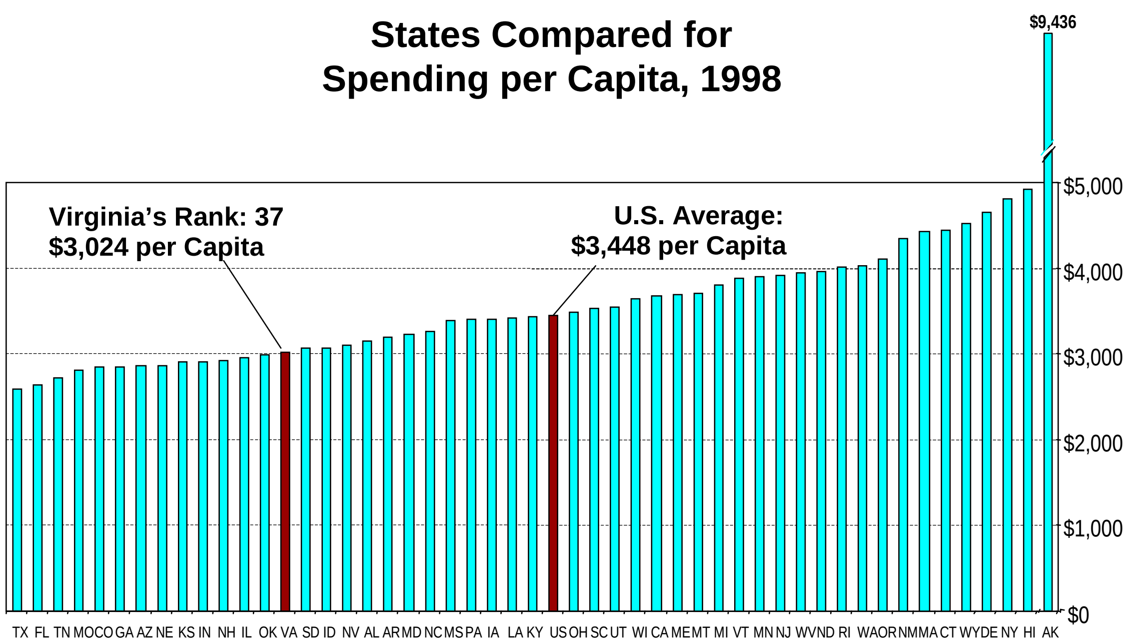
Virginia Spending Compared to Other States

While Virginia appropriations increased over this period, spending by other states kept pace or even exceeded Virginia's rates. National data helps place Virginia in the context of spending by the other states. Despite Virginia's additional spending, the Commonwealth's ranking among the 50 states actually declined in terms of per-capita spending. (This data is not adjusted for the effects of inflation.) Figure 4 illustrates Virginia's position in FY 1981 as ranking 36th among the 50 states in spending per-capita. By FY 1998, the most recent data available, Virginia's rank had decreased one position, to 37th, on this measure (Figure 4). Substantial increases in state spending appear to have been the norm over this period.

Chapter II identifies the agencies and programs that account for most of Virginia's spending growth. Before attempting an explanation of the growth in Virginia's budget, however, a basic understanding of the budget process may be useful.

Figure 4





Source: U.S. Census Bureau.

THE BASIS OF THE STATE BUDGET

The State budget operates within a legal framework including the *Constitution of Virginia*, the *Code of Virginia*, and the Appropriation Act. It is proposed by the Governor in the form of the budget bill, is approved by the General Assembly, and covers a two-year period (a biennium). Consequently, everything in the State budget stems from this review and approval process by the State's elected officials.

The State budget is built on forecasts of revenues that will be paid into the State treasury during the two-year budget period. State statutes set out a process for developing these forecasts, which incorporate sophisticated statistical and econometric models, as well as input from key members of the Virginia business community. Legislators also participate in these input sessions. These forecasts of future revenue are combined with balances remaining at the end of the prior year and with other revenues and adjustments (such as proceeds from the national tobacco settlement, and profits from the State Lottery), to constitute the total resources available for appropriation. Chapter III discusses the forecasting process and the accuracy of the State's revenue forecasts over the 20-year period of this project.

The biennial budget is enacted into law in even-numbered years, and amendments to it are generally adopted in odd-numbered years. For example, the budget for the 1998-2000 biennium was adopted by the 1998 General Assembly, and was amended by the 1999 General Assembly. In some odd-numbered years, a third budget bill (informally called the "caboose" bill) may be adopted, containing final amendments to the biennial budget that was adopted and amended in the prior two sessions of the General Assembly. The 2000 General Assembly adopted a “caboose” bill (Chapter 1072), for example, amending for a final time the 1998-2000 State budget.

While generally straightforward, understanding State spending requires some familiarity with budget terms and procedures. The next section reviews some background, terms, and procedures that are useful in understanding the Virginia budget process.

Constitutional and Statutory Requirements

The *Constitution of Virginia* places several constraints on the State budget. Perhaps the most significant is found in Article X, Section 7, which requires a biennial budget, that all State funds must be appropriated prior to being spent, and that the budget must be balanced:

> All taxes, licenses, and other revenues of the Commonwealth shall be collected by its proper officers and paid into the State treasury. No money shall be paid out of the State treasury except in pursuance of appropriations made by law; and no such appropriation shall be made which is payable more than two years and six months after the end of the session of the General Assembly at which the law is enacted authorizing the same.
>
> Other than as may be provided for in the debt provisions of this Constitution, the Governor, subject to such criteria as may be established by the General Assembly, shall ensure that no expenses of the Commonwealth be incurred which exceed total revenues on hand and anticipated during a period not to exceed the two years and six months period established by this section of the Constitution.

The requirement that “all taxes, licenses, and other revenues” must first be appropriated means that a variety of funding sources, such as college tuition payments, child support payments, gasoline tax revenues, and hunting and fishing license fees, among many others, must first be deposited in the State treasury and appropriated before they can be spent for their various purposes. These earmarked sources of revenue are collectively called “non-general funds” because they are not available for the general purposes of government, but instead are intended for specific programs and activities.

General funds, on the other hand, derive primarily from income and sales taxes, and from other taxes and fees that are not earmarked for any special purposes. These revenues may be appropriated for general governmental services and activities.

The *Code of Virginia* §2.2-1508 *et seq.,* sets out the process by which the budget is established, and directs that budgetary controls should ensure that agency activities stay within the limitations of the Appropriation Act. The *Code* also describes the timing for the Governor to issue his budget recommendations, the requirement for the General Assembly to hold public hearings on the budget, and the process by which the General Assembly may amend and adopt the budget.

Developing the Commonwealth’s budget is a process that takes many months and involves many participants, including State agencies, the Governor, the General Assembly, and the public.

The Appropriation Act

The State budget is contained in the Appropriation Act. The Act incorporates the budget bill as proposed by the Governor, with any amendments made by the General Assembly. The Governor may veto programs and items within the budget, and the General Assembly may then vote to override or sustain the vetoes.

Language in the Act. The Appropriation Act contains several important features in addition to appropriated funding. One such feature is language that specifies and limits the authority of the Governor and other executive branch officials and directs certain actions. An example is section 4-1.01 of the Act, which limits the authority to make payments:

> The State Comptroller shall not pay any money out of the state treasury except as is provided for in this act or in any other act of the General Assembly making an appropriation during the current biennium.

Other requirements specified in Appropriation Act language require agencies to conduct certain studies, or to spend funds in certain ways. Some language items spell out funding formulas to be used by State agencies in distributing funds. These and other language items in the Act provide important controls and limits on State spending.

What Are Appropriations? Appropriations provide the legal authority to expend funds, but are not the same as expenditures. An appropriation may be considered a limit on spending, or a spending ceiling, authorized by the General Assembly and approved by the Governor. Expenditures may be made only if the agency or program has an appropriation (legal authority) to do so.

Appropriations are maximums that expenditures can not exceed. Appropriations are payable in full only if revenues sufficient to pay all appropriations in full are available. Thus a non-general funded program may have an appropriation, but lack sufficient cash, and therefore be unable to expend funds at the appropriated level. A non-general funded program or agency must have both an appropriation and sufficient cash on deposit in the State treasury in order to expend the funds.

Under the *Constitution of Virginia*, only the General Assembly can appropriate funds. Most appropriations are listed in the Appropriation Act, although some may also be included in other legislation, such as bills authorizing a bond issue and appropriating the bond proceeds. The Appropriation Act authorizes the Governor to increase, decrease, or transfer funds while implementing the budget, subject to certain limitations. The Act also requires the Governor to promptly report these administrative adjustments to the General Assembly.

Appropriation adjustments may be made after the Appropriation Act takes effect. The Act authorizes these adjustments, typically in language contained in the “central appropriations” portion of the Act. For example, pay raises for State employees are usually appropriated in a lump sum amount, together with language directing how transfers out of the lump sum are to be made in order to implement the pay raises. These transfers become increases in each agency’s appropriation, providing the authority to pay employees at the new, higher rate.

This report uses appropriations as a “proxy” or surrogate for expenditures. Staff at DPB suggested this approach for several reasons. First, they indicated that final adjusted appropriations are generally close to expenditures. Second, appropriations data from FY 1981 at the agency and program level are readily available, and data on spending is not consistently available over the 20-year timeframe. Accessing data about final appropriations and final expenditures from the 1980s has proven difficult, in part because of the State Records Retention Act, which generally requires agencies to retain such information for no more than three to five years. Some, but not all, State agencies have retained this historical appropriation and expenditure information. As a consequence, the detail available to explain growth in spending for some agencies may vary throughout this report. Historical data on agency spending may be available through the State Library or other sources which may be utilized in future JLARC reports.

The Program Budget. Virginia's budget is based on a program structure, a mechanism intended to conveniently and uniformly identify and organize the State's activities and services. Under this structure, services that the State provides are classified in descending levels in functions, agencies, and programs. Functions represent broad categories of State government activities. Virginia government is grouped into the seven broad functions shown in Figure 5. Agencies are defined in the next section.

Figure 5

State Government Functions

A function represents a broad category of State government efforts and activities; combined, the seven functions encompass all State government activities. Functions are divided into subfunctions, which are further divided into programs that describe the direction of resources to a specific objective. Programs are used to describe agency activities. This report discusses functional areas and programs; subfunctions are shown here for illustrative purposes.

Functional Area	Examples of Subfunctions	Examples of Programs
Education	▪ Higher education instruction ▪ Statewide library services ▪ Adult literacy services	• General academic instruction • Remedial instruction • Community instruction
Administration of Justice	▪ Crime detection, investigation, and apprehension ▪ Pre-trial, trial, and appellate processes ▪ Probation and reentry services ▪ Financial assistance for administration of justice services	• Law enforcement scientific support services • Extradition coordination • Investigation and arrest • Highway patrol services
Individual and Family Services	▪ State health services ▪ Disease carrier and vector control ▪ Temporary income supplement services ▪ Financial assistance for individual and family services	• Alcohol abuse services • Children's specialty services • Drug abuse services • Geriatric care services
Resource and Economic Development	▪ Land Management ▪ Industrial development services ▪ Regulation of business practices	• Land stabilization and conservation • Soil research and mapping • Shoreline management
Transportation	▪ Highway system acquisition and construction ▪ Boating safety and regulation ▪ Air transportation system planning	• Engineering • Interstate construction • Rights-of-way acquisition
General Government	▪ Governmental affairs services ▪ Electoral services ▪ Economic contingency ▪ Enactment of laws	• Federal affairs • Regional affairs • Public information services • Interstate affairs
Enterprises	▪ Agribusiness ▪ Higher education auxiliary enterprises	• Farm produce operation • Nurseries & greenhouse operations

Source: JLARC staff graphic.

A budget program is used as a means of organizing resources directed toward a specific objective such as developing or preserving a public resource, preventing or eliminating a public problem, or improving or maintaining a service or condition affecting the public. Examples of budget programs include:

- financial assistance for public education,
- temporary income supplement services,
- nutritional services,
- secure confinement,
- medical assistance services,
- communicable and chronic disease prevention and control, and
- highway system acquisition and construction.

While the Virginia budget process makes use of greater levels of detail than contained in these budget programs, the agency and program level will be used in this report.

There are several problems with the program structure that constrained the JLARC staff analysis. According to staff at the Auditor of Public Accounts, enforcement of the budget program definitions has been weak. Many budget programs have not consistently been updated for changing governmental activities. Re-named and re-structured agency activities are not always reflected in the agency's budget programs. A number of budget programs have been dropped over the 20-year timeframe of this review, with little indication as to whether or how they were merged in with other programs. Some confusion has existed between the existing program budget and the "activities-based budget" terminology used by the Department of Planning and Budget (DPB) in recent years.

These concerns temper the certainty about how Virginia's budget has changed, and will be noted in later analysis. The JLARC staff analysis contained in this report uses the program structure to address the study mandate, largely because it is the only budgetary data available to examine change over the 20-year period of this review. Additionally, language in the study mandate directs a review of changes in programs.

What is a State Agency? Historically there has been concern in both executive and legislative branches for the efficient operation of Virginia programs and agencies. Getting a fix on how many agencies and programs there are, and thus the potential for consolidation, can be confusing. Table 3 indicates that the total number of State agencies has either gone up or down since 1981, depending on how the term is defined.

The term, "State agency," has different meanings for different audiences. This term usually suggests a set of programs, all coming under the purview of an agency head who is appointed by the Governor, along with a staff

Table 3

How Many State Agencies Are There?

Year	Assigned by Statute (Executive Branch only)	Receiving Funds in Appropriation Act*	Identified in the Secretary of the Commonwealth Report**
1981	85	275	138
2000	81	193	148

* Entities assigned an agency code and receiving operating funds in Appropriation Act.
** Entities shown as separate boxes on the State organizational chart published in the *Report of the Secretary of the Commonwealth*.

Source: JLARC staff analysis of respective documents.

who implement the agency's programs. There are, however, other commonly used meanings.

The *Code of Virginia* lists several definitions. A typical definition in the *Code* at §2.2-128 defines a State agency as "an administrative unit of state government, including any department, institution, commission, board, council, authority, or other body, however designated."

Comprehensive studies of State agencies tend to use customized definitions. The 1996 JLARC report on minority-owned business participation in State contracts, for example, found 227 "sources of expenditure," which then were:

> …collapsed into 76 agency 'units,' consisting of separate agencies (such as VDOT), collections of related agencies (Corrections includes correctional units and field units), branches (legislative and judicial), elected officials and Governor's Secretaries, and a collection of 'other' agencies that spent less than $1,000,000 on contractual services. Generally, the groups of related agency 'units' were determined by the presence of a control agency with administrative control over other agencies with similar or related functions.

The State accounting and budgeting system essentially regards anything assigned an agency code to be equivalent to a State agency, although such codes are often merely a matter of administrative convenience as, for example, a way of entering a new program or activity into the State system and ensuring that funds are accounted for.

This definition is included in the Appropriations Act:

> "State agency" means a court, department, institution, office, board, council or other unit of state government located in the legislative, judicial, or executive department or group of

> independent agencies, or central appropriations, as shown in this act, and which is designated in this act by title and a three-digit agency code.

Thus, the “personal property tax relief program” and “compensation supplements” are examples of programs (just financial accounts, in reality) which have been assigned an agency code for administrative convenience – in these cases, 746 and 757, respectively. These entities are not “State agencies” in any conventional sense, with offices and employees.

The JLARC study mandates refer to “spending functions and programs,” and do not use the term “State agencies.” However, a key aspect of this project is to explain growth in State spending, which may be more understandable at the agency level.

This report identifies 146 entities as State agencies. This starts with the 193 entities with an agency code that meet the Appropriation Act definition and that receive an appropriation, and (in keeping with conventional practice in Virginia budget analysis) counts several special situations as one agency. These situations include the cases where multiple entities will be subsumed within their parent agency (such as the 15 individual institutions listed under the Department of Mental Health, Mental Retardation, and Substance Abuse Services). These actions reduce the number of agencies receiving appropriations from 193 to the 143 identified in Appendix B.

For analysis purposes in this report, three additional entities will be considered agencies, bringing the total to 146. Capital project appropriations will be treated as a State agency. Although appropriated and assigned to specific agencies to manage, the total capital appropriation is often viewed as a single appropriation, with a common purpose. The size of the total capital appropriation also places it among the largest items in the State budget. The personal property tax relief program and compensation supplements will also be treated as State agencies, due to their size.

Which Agencies Have the Largest Budgets?

With this definition of State agency in mind, Table 4 indicates the 30 largest State agencies as shown in the Appropriation Act for FY 2000. These 30 entities accounted for 91 percent of the total State budget in FY 2000.

The JLARC reports on State spending will develop a case study or profile of these 30 agencies. Due to time constraints, this report profiles a more limited number of agencies.

The purpose of the agency profiles is to help explain why and how the State budget has grown. Each profile will identify key increases in spending over the 20-year period from 1981 to 2000, and briefly describe why the agency's budget increased. Profiles are included in Chapter V.

JLARC REVIEW

This report is the first in a series of JLARC reports on State spending. This series will explain budget growth in several ways. Societal factors such as population growth and inflation will be examined for their impact on State spending. "Budget drivers" – entities that account for the lion's share of budget growth over the period – will also be identified and discussed. Virginia-specific factors, such as initiatives and funding decisions, will be examined for their long-term effects on theState budget. Finally, the growth of individual agency budgets will be examined

Table 4

30 Largest Agencies[1] Ranked by Total Appropriation, FY 2000

Rank	Agency	General Funds	Non-General Funds	Total Agency Appropriation	Percent of Total State Approp.
1	Department of Education	$ 3,785,096,688	$ 461,461,690	$ 4,246,558,378	19.5%
2	Department of Medical Assistance Services	$ 1,371,023,469	$1,491,569,324	$ 2,862,592,793	13.2%
3	Virginia Department of Transportation	$ 47,322,000	$2,353,550,347	$ 2,400,872,347	11.0%
4	Department of Social Services	$ 262,522,743	$ 859,174,350	$ 1,121,697,093	5.2%
5	University of Virginia[2]	$ 147,896,714	$ 934,837,620	$ 1,082,734,334	5.0%
6	Department of Corrections	$ 626,465,229	$ 92,796,388	$ 719,261,617	3.3%
7	Department of Mental Health, Mental Retardation, and Substance Abuse Services	$ 399,106,574	$ 314,377,507	$ 713,484,081	3.3%
8	Virginia Tech[3]	$ 239,449,390	$ 352,158,652	$ 591,608,042	2.7%
9	Virginia Commonwealth University [4]	$ 170,162,645	$ 330,426,331	$ 500,588,976	2.3%
10	State Compensation Board	$ 452,990,260	$ 4,200,000	$ 457,190,260	2.1%
11	Virginia Community College System	$ 289,332,928	$ 152,323,443	$ 441,656,371	2.0%
12	Department of Health	$ 137,877,662	$ 272,527,794	$ 410,405,456	1.9%
13	Personal Property Tax Relief	$ 398,126,729	$ -	$ 398,126,729	1.8%
14	Capital Outlay	$ 188,264,832	$ 203,793,623	$ 392,058,455	1.8%
15	Virginia Employment Commission	$ 175,000	$ 372,236,237	$ 372,411,237	1.7%
16	George Mason University	$ 106,837,224	$ 186,311,599	$ 293,148,823	1.3%
17	Department of Criminal Justice Services	$ 220,412,671	$ 43,624,336	$ 264,037,007	1.2%
18	Department of Alcoholic Beverage Control	$ -	$ 251,985,151	$ 251,985,151	1.2%
19	Judicial Department	$ 232,021,390	$ 9,456,295	$ 241,477,685	1.1%
20	James Madison University	$ 61,636,127	$ 150,115,578	$ 211,751,705	1.0%
21	Dept of Treasury [5]	$ 200,517,215	$ 3,360,532	$ 203,877,747	0.9%
22	Treasury Board	$ 197,778,401	$ 4,460,953	$ 202,239,354	0.9%
23	Department of Juvenile Justice	$ 185,297,421	$ 5,165,203	$ 190,462,624	0.9%
24	Old Dominion University	$ 89,562,313	$ 92,589,964	$ 182,152,277	0.8%
25	Department of State Police	$ 148,456,436	$ 29,405,174	$ 177,861,610	0.8%
26	College of William & Mary [6]	$ 66,881,625	$ 108,883,383	$ 175,765,008	0.8%
27	Compensation Supplements	$ 172,551,630	$ 432,827	$ 172,984,457	0.8%
28	Department of Motor Vehicles	$ -	$ 168,221,362	$ 168,221,362	0.8%
29	Department of Environmental Quality	$ 86,372,278	$ 75,962,822	$ 162,335,100	0.7%
30	Comprehensive Services for At-Risk Youth and Families	$ 119,150,923	$ 31,890,661	$ 151,041,584	0.7%
	TOP 30 TOTALS	**$10,403,288,517**	**$9,357,299,146**	**$19,760,587,663**	90.8%

[1]As defined in the text
[2]Includes the medical center and the College at Wise.
[3]Includes the Extension Services.
[4]Excludes the VCU Health System Authority.
[5]Includes annual appropriation to the revenue stabilization fund.
[6]Includes Virginia Institute of Marine Science and Richard Bland College.

Source: Chapter 1072, 2000 Reconvened Session.

to help explain the specific factors and decisions that drove the budgets of the largest State agencies.

To conduct this review, JLARC staff interviewed a variety of individuals involved with the State budget process, collected appropriation and expenditure data from a variety of sources, including the Department of Planning and Budget as well as individual agencies, and reviewed previous reports and documents pertaining to State spending.

Structured Interviews

Numerous structured interviews were conducted during the course of this review. Interviews were conducted with both the current and previous Secretary of Finance, the prior Director of the Department of Planning and Budget (DPB), the current Acting Director of DPB, and other staff members of DPB.

JLARC staff met with and interviewed personnel from the Auditor of Public Accounts, and the Departments of Accounts and Taxation. JLARC staff also met with and collected extensive data from personnel at the case study agencies profiled in the current report. In addition, JLARC staff interviewed staff from other State agencies in the executive and legislative branches.

Data Collection

Appropriation data were collected from DPB for the period from FY 1983 to FY 2000 at the agency, program, and fund level of detail. DPB maintains this information in a computerized format. DPB staff modified earlier years of this dataset in an effort to account for agency and program changes, as in the following example.

> *The medical assistance services program was in the Virginia Department of Health (VDH) prior to FY 1985 when in was established as a separate agency. In the dataset, this program was removed from VDH and reported as if it were the Department of Medical Assistance Services (DMAS) in the prior years.*

To build a 20-year history of appropriations, JLARC staff supplemented the DPB data with data from the Appropriation Acts for FY 1981 and FY 1982.

A key constraint in collecting information about historical budget changes was the limited historical data maintained by various State agencies, and staff turnover within the agencies over this relatively long period of time. Several agencies pointed out that Virginia's records retention policy does not require that appropriations and expenditure data be retained for 20 years. Consequently, useful information about budget change during the 1980s, for example, was unavailable from some agencies. Turnover in budget staff and in other key positions within agencies also limited the amount of information available for historical purposes. JLARC staff attempted to supplement information provided by agencies by referring to a variety of documentation described below.

Additional constraints on the analysis were the program and agency consolidations, reorganizations, and abolishments that occurred over the 20-year timeframe of this project. Appendix C lists organizational changes such as consolidations and abolishments, whether by legislation or executive order, between 1994 and 2001. Based on this review, 105 entities were created during these years, 16 were abolished, 11 were transferred between agencies, and 13 other organizational actions were noted. These actions, similar actions in earlier years, and the limited availability of some historical data make it difficult to track some longer-term trends.

JLARC staff collected expenditure data for FY 1999 and FY 2000 from the office of the Auditor of Public Accounts. JLARC staff collected data on the consumer price index and a variety of other demographic and economic factors from the U.S. Census Bureau, the U.S. Department of Commerce, and other federal agencies.

Literature Review

JLARC staff reviewed a variety of documents for this review. These included Appropriation Acts from FY 1978 to the present, Governor's executive budget documents over the same period, and summaries of General Assembly budget actions prepared by staff of the House Appropriations and Senate Finance committees from 1984 to the present. "State of the Commonwealth" speeches by Virginia Governors were also collected and reviewed for the 20-year study period. Agency-specific and program-specific studies and documents were reviewed, as were reports from legislative and gubernatorial study commissions and panels. A variety of other documents were also collected and reviewed for this report.

REPORT ORGANIZATION

This chapter has provided background information on the general topic of State spending, and identified definitional issues important to the project.

Chapter II presents information on overall Virginia spending growth. Chapter III provides an historical perspective on the general fund revenue forecasting process. Chapter IV covers performance measures that have been developed for State agencies. Chapter V includes agency profiles for several of the large agencies noted in Table 4. These profiles recount key decisions and events over the last 20 years that increased the State budget.

II. Components of Spending Growth

A key part of the mandate for this review focuses on components of Virginia's budget which have had a large impact on budget growth or have been fast growing. Both HB 2865 and HJR 773 direct JLARC staff to identify State programs that have had the largest impact on the growth of State spending, in terms of both dollars and percentage, as well as comparing these growth rates to inflation and growth in the populations served by the programs. This chapter addresses these concerns.

The State budget grew substantially over the period of this review, as reported in Chapter I. The budget, detailed in the Appropriation Act, increased $15.7 billion between FY 1981 and FY 2000. This represents growth of 274 percent over the 20-year period, and an annual average growth rate of 7.3 percent. On a per capita inflation-adjusted basis, the Virginia budget increased 56 percent. Actual spending (including the expenditure of bond proceeds, which are appropriated separately from the Appropriation Act) grew $16.5 billion over this period.

Not every State agency and program experienced as much growth as suggested by the overall growth in the State budget. Some grew faster than the total State budget, some grew much more slowly or were level-funded (in other words, received no budget increases) for several years, and others experienced budget reductions. Numerous agencies and programs were abolished, consolidated or reorganized, making it difficult to track longer-term trends. (Some of these organizational changes are itemized in Appendix C.) This chapter identifies functions, agencies, and programs which have shown large growth in dollars or percentage, and describes several initiatives that have also contributed to government spending.

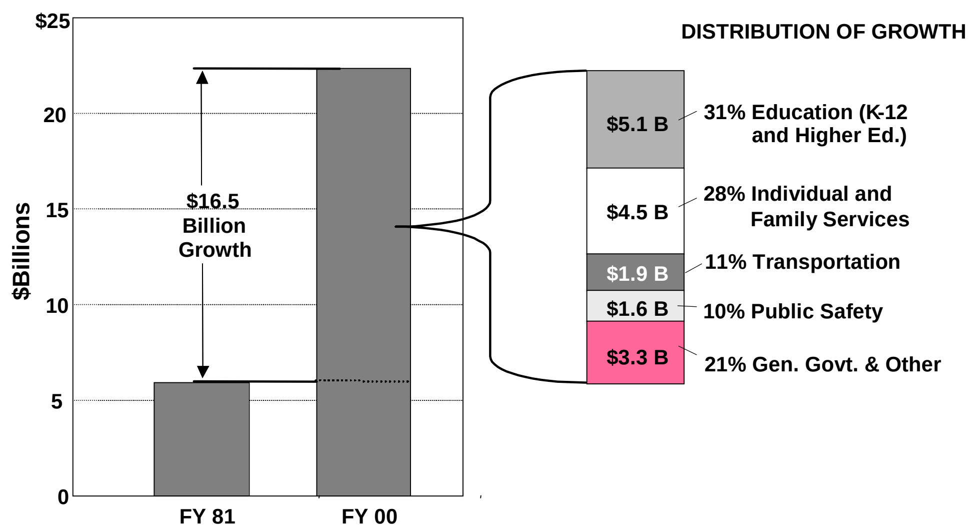
SPENDING TRENDS IN THE BROAD FUNCTIONS OF STATE GOVERNMENT

Two of the broad functions of State government accounted for nearly three-fifths of the increased spending (in terms of dollars unadjusted for either population growth or inflation) over the 20-year period of this review. Figure 6 indicates that education accounted for $5.1 billion or 31 percent of the growth between FY 1981 and FY 2000, and that the broad function of individual and family services accounted for $4.5 billion of the growth, or 28 percent.

The priority given to these two functions is clear from Figure 7, which illustrates annual expenditure growth among the functions of State government.

Figure 6

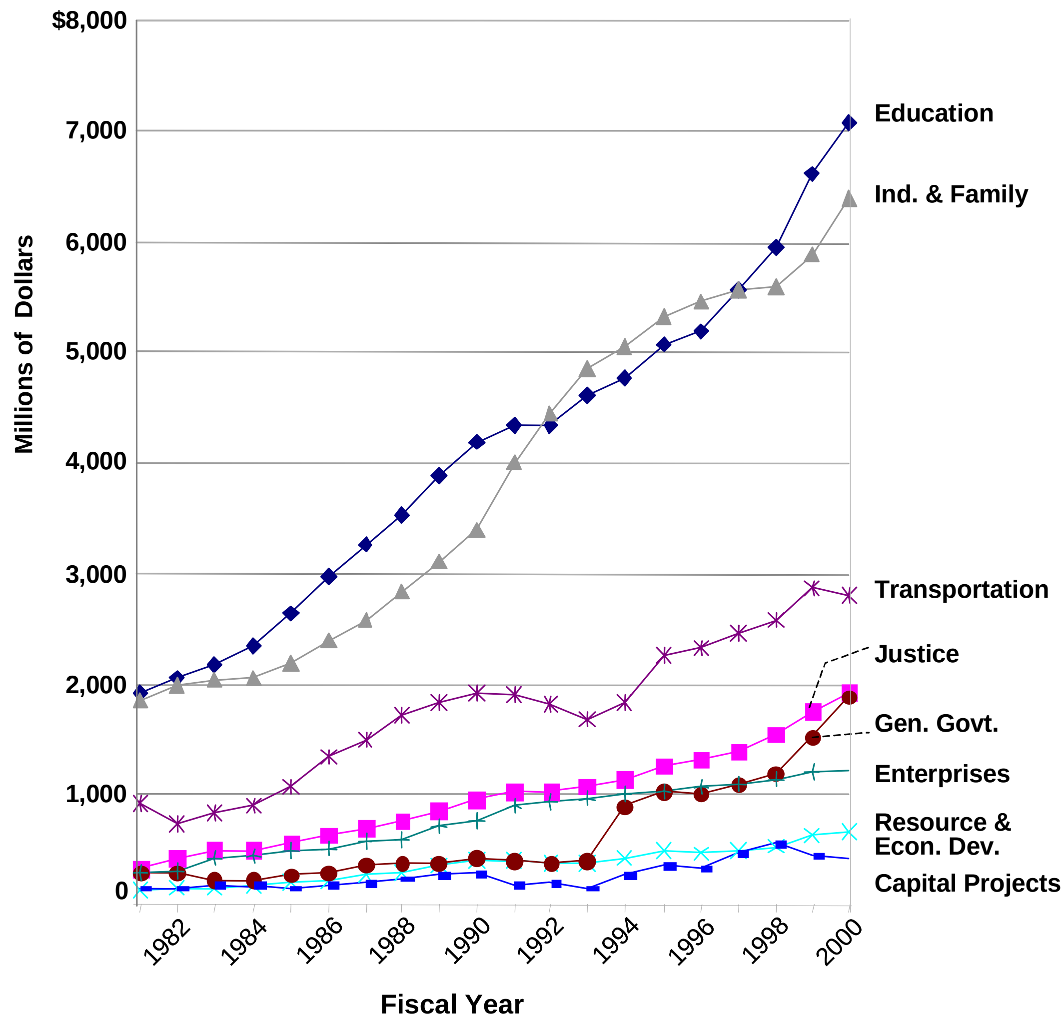
Growth and Composition of State Budget
Between FY 1981 and FY 2000



Source: JLARC staff analysis.

Figure 7

Expenditures by Functional Area, FY 1981 – FY 2000



Source: JLARC staff analysis.

Between FY 1981 and FY 2000, education and individual and family services accounted for more than half of State expenditure growth, in terms of dollars. This is not surprising, as these functions were also the largest share of FY 1981 expenditures, and therefore had the largest bases that were impacted by inflation and other growth factors.

Growth in spending also characterized the other functions of State government, although each grew less in dollar terms than education or individual and family services. The function with the third largest growth in dollars, for example, was transportation, which tripled over the 20 years following FY 1981. Transportation accounted for 11 percent of total spending growth during this period (Figure 6). Overall spending on transportation grew $1.9 billion or 211 percent during this period, from $0.9 billion per year to $2.8 billion. Figure 7 indicates that it was not a smooth increase, however, with two downturns in transportation funding – in FY 1982 and again in FY 1992 and FY 1993. These downturns reflected the broader economic downturns Virginia experienced during these periods, as well as State decisions to transfer some transportation funding to the general fund.

The remaining broad governmental functions also saw significant growth during the period.

- The administration of justice function, which includes the court system as well as the State corrections system accounted for ten percent of overall budget growth 460 percent between FY 1981 and FY 2000, increasing from $339 million to $1.9 billion.

- General government, which includes spending for administrative agencies such as the Department of Treasury and the Treasury Board as well as the legislative branch and the personal property tax relief program, grew 555 percent, from $290 million in FY 1981 to $1.9 billion in FY 2000.

- The enterprise function of State government grew 171 percent during the period, which includes the start-up and operation of the Lottery Department in the early 1990s.

- Resource and economic development grew 366 percent between FY 1981 and FY 2000. This function includes agencies and programs in the natural resources area along with activities in commerce and trade.

These broad governmental functions were established in the 1970s, when the State's budget program structure was established. As noted in Chapter I, there are seven of these broad functions. Each function encompasses many agencies and programs.

GROWTH IN STATE AGENCY BUDGETS

The legislative mandate for this review directs a focus on fast growing agencies and programs, both in terms of growth in dollars and in percentage. This section identifies agencies with fast growing budgets during this period and focuses on the relatively large agencies that accounted for a significant amount of budget growth over the 20-year period. JLARC staff reviewed budget growth for agencies with an appropriation in FY 1981 of at least $10 million. This excludes the relatively small agencies that may display significant percentage growth, but remain relatively small. For example, an agency appropriated $500,000 in FY 1981 that grew to $5 million over 20 years would not be included in this analysis.

This review also considers the institutions of higher education together as a group, due to the similarity of their overall missions and the recommendation by JLARC members to treat the colleges and universities separately from regular State agencies. Another constraint is that some new agencies appeared during this timeframe, and other agencies disappeared – they were either eliminated altogether or merged into other agencies. This report reflects an initial attempt to identify the agencies with large dollar or percentage growth. Future JLARC reports may examine a broader range of agencies.

Agencies with the Largest Increases in Dollar Terms

Education agencies lead the list of agencies with the most growth in expenditures, followed by Medicaid and transportation. The agencies with the largest dollar change in total appropriations from FY 1981 to FY 2000, shown in Table 5, reflect this ordering.

A variety of agencies is represented in Table 5. Growth in some of these, such as in VDOT, in central appropriations (growth of which is dominated by the appropriation for the personal property tax relief program), and in the Department of Corrections, stem at least partly from major State initiatives undertaken during the 20-year period of this review. Federal initiatives have been major influences on some agency budgets, such as the Departments of Transportation and Medical Assistance Services. Other agencies, such as the Community College System or the Department of Health, may have increased due to a variety of factors.

Agencies With the Largest Increases in Percentage Terms

A different list emerges from a review of agencies with high percentage growth. Table 6 indicates the agencies with high percentage growth since FY 1981. Looked at this way, universities and the Department of Education appear in the middle, with public safety-related agencies in three of the top six positions (this

Table 5

Agencies with the Most Dollar Growth in Total Appropriations* FY 1981 – FY 2000

Rank	Agency	Growth in Millions
1	Department of Education	$ 2,976
2	Colleges & Universities	$ 2,695
3	Department of Medical Assistance Services**	$ 2,426
4	Virginia Department of Transportation	$ 1,421
5	Department of Social Services	$ 775
6	Department of Corrections	$ 564
7	Central Appropriations (includes $398 million for Personal Property Tax Relief)	$ 507
8	Department of Mental Health, Mental Retardation and Substance Abuse Services	$ 494
9	Compensation Board	$ 404
10	Virginia Community College System	$ 294
11	Department of Health	$ 287
12	Department of Criminal Justice Services**	$ 249
13	Department of Treasury	$ 202
14	Department of Juvenile Justice**	$ 180
15	Treasury Board	$ 174
16	Supreme Court	$ 165
17	Comprehensive Services Act**	$ 151
18	Department of Environmental Quality**	$ 146
19	Virginia Employment Commission	$ 138
20	Department of State Police	$ 126

* Includes agencies with FY 1981 appropriation of at least $10 million.
** Agency did not exist in FY 1981. Growth is calculated based on DPB's effort to include the predecessor programs and agencies.

Source: JLARC staff analysis of DPB data.

Table 6

Agencies with the Most Percentage Growth in Total Appropriations*
FY 1981 – FY 2000

Rank	Agency	Percentage Change: Unadjusted All Funds	Percentage Change: Inflation-Adjusted All Funds
1	Department of Criminal Justice Services**	1,675%	808%
2	Department of Environmental Quality**	865%	394%
3	Compensation Board	755%	337%
4	Treasury Board	606%	261%
5	Department of Medical Assistance Services**	556%	236%
6	Department of Corrections	362%	137%
7	Central Appropriations (includes personal property tax relief)	360%	129%
8	Supreme Court	348%	129%
9	Department of Taxation	343%	127%
10	Universities	337%	123%
11	Department of Juvenile Justice**	336%	123%
12	Department of Education	266%	87%
13	State Corporation Commission	246%	77%
14	Department of State Police	246%	77%
15	Department of Game and Inland Fisheries	233%	71%
16	Virginia Department of Health	232%	70%
17	Department of Motor Vehicles	228%	68%
18	Department of Mental Health, Mental Retardation and Substance Abuse Services	226%	67%
19	Department of Social Services	223%	65%
20	Department of Accounts	207%	57%

*Includes agencies with FY 1981 appropriation of at least $10 million.
**Agency did not exist in FY 1981. Growth is calculated based on DPB's effort to include the predecessor programs and agencies.

Source: JLARC staff analysis of DPB data.

counts the Compensation Board as a public safety agency, since the majority of its budget growth has been for sheriffs' departments).

Table 6 also presents the percentage growth in these agencies' budgets taking inflation (as measured by the CPI-U) into account. Agencies appear in the same sequence, although the growth figures are somewhat smaller due to the exclusion of inflationary effects. Explanations for each agency's growth pattern will be discussed in agency profiles, some of which are included in this report. Additional agency profiles will be developed in a later JLARC staff report.

Agencies with High General Fund Growth

Examining budget growth on the basis of funding source is also useful. Table 7 lists the agencies with the most growth in percentage terms, when considering only general funds (Table 7 includes all agencies with general fund growth that exceeded the 90 percent inflation rate during the period). General funds are not restricted or earmarked for any particular purpose, and may be spent on a wide variety of purposes. Several of the agencies are profiled in Chapter V. The profiles provide additional information about each agency and about the agency's budgetary growth.

The agency with the highest percentage increase in general fund growth was the Compensation Board. This agency provides State funding to the constitutional officers for staff and office support. As noted in the Compensation Board profile in Chapter V, some of this agency's growth is due to a technical funding change in FY 1985. An 81 percent increase in the agency's budget that year did not reflect a large increase in funding for constitutional officers; rather, it reflected the consolidation of funds in one place in the Appropriation Act. Prior to that year, funds were routinely transferred from central appropriations into the Compensation Board for purposes of distributing funds to the constitutional officers. Beginning in FY 1985, all funds for constitutional officers were placed in

Table 7

Agencies with the Most Percentage Growth in General Funds
FY 1981 – FY 2000

		Percentage Change	
Rank	**Agency**	**Unadjusted**	**Inflation-Adjusted**
1	Compensation Board	747%	333%
2	Department of Environmental Quality*	690%	304%
3	Department of Medical Assistance Services*	628%	273%
4	Treasury Board	591%	253%
5	Supreme Court	347%	129%
6	Department of Corrections	324%	117%
7	Central Appropriations (includes personal property tax relief)	312%	111%
8	Department of Education	281%	95%
9	Department of Taxation	221%	64%
10	Department of Mental Health, Mental Retardation, and Substance Abuse Services	219%	63%
11	Universities	200%	54%
12	Department of State Police	195%	51%
13	Department of Accounts (includes revenue stabilization fund)	193%	50%
14	Department of Health	175%	41%
15	Virginia Community College System	168%	37%
16	Department of Social Services	121%	13%
17	Department of Agriculture and Consumer Services	98%	1%

*Agency did not exist in FY 1981. Growth is calculated based on an effort by DPB to include the predecessor programs and agencies in this item.

Source: JLARC staff analysis of DPB data.

the Compensation Board's budget, thereby eliminating the transfer. As the agency profile in Chapter V notes, the Compensation Board has received other significant funding increases that were intended to address requests from the constitutional officers.

There are some similarities of rank between the agencies shown in Tables 6 and 7, meaning between growth in all funds and growth in general funds only. The Compensation Board, Department of Environmental Quality, Department of Medical Assistance Services, and the Treasury Board are all in the top ranks of fast growing agencies, whether looking at growth in all funds or only at general fund growth.

Agencies With High Non-General Fund Growth

Examining the fastest growing agencies in terms of non-general fund growth reveals a quite different listing (Table 8). This is not surprising, given the variety and nature of non-general funds provided to State agencies. The agency with the greatest percentage increase in non-general fund growth over the 20-year period was the State's Medicaid agency, the Department of Medical Assistance Services. Most of this agency's non-general funds are federal funds, which are provided as a match to State funding.

The colleges and universities comprised the agency group with the second largest amount of growth in terms of non-general funds. Tuition and fee payments as well as auxiliary enterprise income and sponsored research funding account for much of the non-general fund growth for Virginia's colleges and universities. For example, tuition for Virginia undergraduates attending Virginia Tech increased 272 percent during this period, from $972 per semester in FY 1981 to $3,620 per semester in FY 2000. At the University of Virginia, in-state undergraduate tuition and fees rose 296 percent, from $1,044 in FY 1981 to $4,130 in FY 2000.

In third place in terms of non-general fund growth was the State Corporation Commission (SCC). This agency's budget derives mainly from fees

Table 8

Agencies with the Most Percentage Growth in Non-General Funds

FY 1981 – FY 2000

		Percentage Change	
Rank	Agency	Unadjusted	Inflation-Adjusted
1	Department of Medical Assistance Services*	502%	208%
2	Colleges & Universities	451%	182%
3	State Corporation Commission	298%	104%
4	Virginia Community College System	281%	95%
5	Department of Social Services	276%	92%
6	Department of Health	270%	90%
7	Department of Mental Health, Mental Retardation, and Substance Abuse Services	235%	71%
8	Department of Game and Inland Fisheries	232%	70%
9	Department of Motor Vehicles	228%	68%
10	Department of Criminal Justice Services*	221%	64%
11	Department of Education	175%	41%
12	Virginia Department of Transportation	140%	23%
13	Department of Rehabilitative Services	139%	22%

*Agency did not exist in FY 1981. An effort has been made to include the predecessor programs and agencies in this item.

Source: JLARC staff analysis of DPB data.

paid by the entities required to be licensed by or to register with it. Increases in the number of these entities and in the fees they pay, as well as new responsibilities assigned by statute help account for the SCC's budgetary increases, according to the agency. As an example, in 1981 there were 225 brokered securities dealers paying $25 each to register with the SCC, and 9,000 dealer agents paying $10 to register, generating $95,625 in non-general funds. By 2000 there were 2,300 such dealers paying a $200 fee, and 139,617 agents paying a $30 fee (fees were raised by legislation in 1984), generating a total of $4.6 million. Other categories of firms and entities requiring SCC licensure and registration also saw sizeable increases in numbers and in revenues over this period.

The brief explanations provided for the growth reported in Tables 7 and 8 will be further developed in agency profiles contained either in Chapter V of this report, or in a future JLARC staff report.

GROWTH IN BUDGET PROGRAMS

Governmental functions and agencies grew in size during the two decades of this review primarily as a result of increased funding for specific budget programs. As discussed in Chapter I, budget programs are not conventional State agencies with employees and offices, but instead are related activities grouped together in the State budgeting and accounting systems. Some budget programs are common to more than one agency, but many of the fastest growing programs are administered by only one agency.

The following sections identify the budget programs that drove funding growth in the broad governmental functions. The period covered, FY 1983 through FY 2000, is two years short of the 20-year period of this project because data supplied by the Department of Planning and Budget (DPB) at the budget program level of detail started with FY 1983. Although some problems with defining Virginia's budget programs were noted in Chapter I, this section uses budget programs as a basis for examining growth.

Table 9 indicates the increments, in terms of dollars, attributable to major programs with an increment of more than $100 million within each function for the 18-year period from FY 1983 through FY 2000. These increments equal the difference between the amounts appropriated for each program in FY 2000 and in FY 1983. Thus, the dollar amounts are the lump-sum appropriation for these programs in FY 2000 over and above the FY 1983 appropriation.

Education

Education experienced the largest amount of budget growth of all governmental functions. Seven programs – three elementary and secondary education programs and four higher education programs – accounted for most of this growth. As Table 9 indicates, two programs grew most in terms of dollars: financial assistance for public education (SOQ), and financial assistance for education and general programs in higher education.

The growth in education funding includes the following:

- Financial assistance for public education, which includes funding for the standards of quality (SOQ) and various incentive payment programs. The $1.6 billion appropriation growth in this program reflects increases for basic aid to education as well as the development of programs such as those for at-risk four year olds preschool, school health incentive payments, and the standards of learning remediation and readiness programs.

- Financial assistance for special State revenue sharing grew $820 million during the period. This program consists mainly of the sales tax dedicated to public education and distributed to localities.

- Financial assistance for public education (categorical) grew $159 million during the period. This program includes funding for special education, vocational education, and a variety of other categorical programs.

Table 9

Major Components of Appropriation Growth*

FY 1983 – FY 2000

	Growth in Millions
Budget Growth in Education	
Elementary and Secondary Education	
Public Education	$ 1,608
Special State Revenue Sharing (local share of sales tax)	$ 820
Public Education (categorical)	$ 159
Higher Education	
Education and General Programs	$ 1,412
Higher Education Auxiliary Programs	$ 472
Financial Assistance for Educational and General Services	$ 365
Student Financial Assistance	$ 113
Budget Growth in Individual and Family Services	
Medical Assistance Services	$ 2,326
Child Support Enforcement	$ 391
State Health Services	$ 384
Employment Assistance Services	$ 260
Administrative and Support Services	$ 253
Protective Services	$ 207
Financial Assistance for Individual and Family Services	$ 204
Financial Assistance for Health Services	$ 167
Nutritional Services	$ 118
Community Health Services	$ 107
Budget Growth In Transportation	
Highway System Acquisition and Construction	$ 804
Highway System Maintenance	$ 505
Mass Transit Assistance	$ 112
Budget Growth in Public Safety	
Crime Detection, Apprehension, Investigation	$ 343
Secure Confinement	$ 315
Pre-Trial and Appellate Processes	$ 187
Administrative and Support Services	$ 177
Budget Growth in General Government	
Personal Property Tax Relief**	$ 398
Revenue Stabilization**	$ 194
Financial Assistance to Localities – General	$ 174
Bond and Loan Retirement and Redemption	$ 166
Compensation Supplements (State)	$ 153

*Dollar amounts are the lump-sum difference in appropriations for these programs in FY 2000 over and above the FY 1983 appropriation.
**Program did not exist in FY 1983.

Source: JLARC staff analysis.

- Educational and general programs grew $1,412 million between FY 1983 and FY 2000. This budget program includes higher education instruction, including remedial instruction, general academic instruction, vocational education and medical instruction. This is the principal budget program at the colleges and universities, including the community colleges.

- Higher education auxiliary enterprises, which includes non-general funds for the many non-instructional activities on college campuses such as food service, athletics, telecommunications services, parking, etc. This program grew $472 million over the 18-year period.

- Financial assistance for educational and general services grew $365 million over the period. This includes funding for a variety of higher education instruction-related activities.

- Student financial assistance grew $113 million over the 18-year period. This program mainly includes funding intended for scholarships and fellowships at the State's institutions of higher education.

The first three of these programs are administered by the Department of Education. The last four programs are found in the budgets of each State college and university. More detailed discussions of the growth within these agencies are developed in the agency profiles in Chapter V.

Individual and Family Services

The governmental function with the second largest amount of long-term growth was individual and family services. This is a broad function, including welfare programs, child support enforcement, Medicaid, health and mental health services, and many related activities.

Growth in this broad function totaled $4.5 billion between FY 1983 and FY 2000. Several programs within this function grew significantly over the period, although more than half of the growth was due to one program – medical assistance services, the principal component of Medicaid. Federal funds made up about one-half of Medicaid budget growth. Significant federal funding is also included in protective services and several other programs.

The principal components of appropriation growth in the individual and family services function include the following programs:

- Medical assistance services increased $2,326 million between FY 1983 and FY 2000. This includes payments on behalf of eligible individuals enrolled in the Medicaid program for in-patient and out-patient hospital and skilled nursing home services, for services provided by health professionals, for mental health and mental retardation services, and other related activities. This program is primarily administered by the Department of Medical Assistance Services.

- Child support enforcement grew $391 million over the FY 1983-2000 period, and includes efforts to locate absent parents, establish parentage, and disburse child support payments made by non-custodial parents. This program is administered by the Department of Social Services.

- State health services grew $384 million over the FY 1983-2000 period, and includes in-patient medical services in State-supported hospitals, mental health and mental retardation services, outpatient medical services, child development and specialty services, geriatric services, and alcohol and drug abuse services, and related activities. This program is located in several agencies, including the University of Virginia, the Department of Health, and the Department of Mental Health, Mental Retardation, and Substance Abuse Services.

- Employment assistance services grew $260 million over the FY 1983-2000 period. This includes job placement services, unemployment compensation payments as well as eligibility determination and related services and activities. This budget program is found in the Virginia Employment Commission and the Department of Social Services.

- Administrative and support services grew $253 million over the FY 1983-2000 period, and includes computer services, accounting, engineering, personnel, food services, physical plant and a variety of related services and activities. This budget program is found in every agency within this broad governmental function.

- Protective services grew $207 million over the FY 1983-2000 period, and includes foster care for children and adults, aftercare services for youth, efforts to protect children and youth from abuse and neglect, and related activities. This budget program is found mainly in the Department of Social Services.

- Financial assistance for individual and family services grew $204 million over the FY 1983-2000 period. This program includes temporary assistance to needy families (TANF) and its predecessor programs such as aid to families with dependent children (AFDC), financial assistance to local departments of social services to purchase services such as child day care, and related activities. This budget program is found in the Department of Social Services.

- Financial assistance for health services grew $167 million between FY 1983 and FY 2000. This budget program primarily provides funding for the 40 community services boards, and is found in the Department of Mental Health, Mental Retardation, and Substance Abuse Services.

- Nutritional services, which includes financial assistance to local school divisions for school food services, funding for home delivered and congregate meals, and other related services, grew $118 million over the FY 1983-2000 period. This budget program is found primarily in the Virginia Department of Health and the Department of Education.

- Community health services grew $107 million over the FY 1983-2000 period. This includes funding for local health departments and drug and alcohol abuse services, dental health services, environmental health and general medical services, home health care and maternal and child health services, and other related services and activities. This budget program is found primarily in the Virginia Department of Health.

Transportation

The third largest amount of long-term budget growth was in the broad governmental function of transportation. Just two programs dominated growth in this function between FY 1983 and FY 2000: highway system acquisition and construction, which grew $804 million, and highway system maintenance, which grew $505 million. These programs are assigned to one agency, the Virginia

Department of Transportation (VDOT). A distant third, in terms of budget growth within transportation, was the mass transit program, which grew by $112 million over the 18 year period. This program provides financial assistance to localities and to transit operators, and was located within VDOT until the Department of Rail and Public Transportation was established in 1992.

A major transportation funding initiative was approved by the General Assembly in 1986, leading to significant increases in transportation spending in the subsequent years. Although there were also two slowdowns in transportation spending between FY 1981 and FY 2000, overall growth was still enough to constitute the third largest amount of growth in the State budget. Federal funds comprise a substantial portion of the growth in the highway system acquisition and construction program, as there were several major federal transportation funding initiatives during this period.

Public Safety

Budget growth in the public safety function, the fourth largest area of growth in State government, stems primarily from four programs, as indicated in Table 9. These four programs are:

- Crime detection, apprehension, and investigation grew $343 million per year over the FY 1983-2000 period, and is found primarily in the Compensation Board and the Department of State Police. Between 1981 and 2000, 470 troopers were added in the Department of State Police (DSP), and 1,850 deputies were added in county sheriffs' offices, according to the DSP publication, *Crime in Virginia.*

- Secure confinement grew $315 million over the FY 1983-2000 period. This program includes funding to operate the State prisons and the juvenile correctional centers. Between FY 1983 and FY 2000, the adult inmate population for whom the State was responsible increased 221 percent, from 9,463 to 30,394, and the Department of Corrections opened more than 35 new facilities. Expansion of the juvenile justice system also occurred over this period.

- Pre-trial and appellate processes grew $187 million over the FY 1983-2000 period, and is a budget program in the Judicial Department. Much of the growth occurred in the criminal fund, which covers expenses for indigent defendants, and grew from $11 million in FY 1981 to $53 million in FY 2000.

- Administration and support services grew $177 million between FY 1983 and FY 2000. This program includes computer services, accounting, engineering, personnel, food services, physical plant and a variety of related services and activities. This program is found in each of the public safety agencies.

Major initiatives in public safety occurred during the 20-year period of this review. For example, several prison construction initiatives had substantial impacts on the budgets of public safety programs.

General Government

This broad governmental function includes two budget programs, added in the 1990s, which grew enough in terms of overall appropriations to be the primary budget drivers of this function. Two other budget programs also functioned as drivers of growth in this governmental function.

- Personal property tax relief was established in FY 1999 to provide financial assistance to localities to assist in the phasing out of the car tax. By FY 2000, this program had grown to an annual appropriation of $398 million (by FY 2002, the appropriation for this item had grown to $855 million, and the estimated cost of fully phasing out the car tax is $1.1 billion per year). This program is located within the central appropriations portion of the budget.

- The revenue stabilization program was set up in FY 1994 to provide a reserve fund in the event of deficiencies in State revenue collection. The amount appropriated annually is calculated on the basis of a formula set in the *Virginia*

Constitution. In FY 2000, $194 million was earmarked for this purpose in the Department of Accounts.

- General financial assistance to localities grew $174 million over the FY1983-2000 period. This budget program does not include all State financial assistance to localities; it includes only certain payments by the State to localities for alcoholic beverage control profits, mobile home taxes, sales taxes, the recordation tax, and other sharing of revenues. This budget program may be found in many State agencies.

- Compensation supplements (State) refers to a lump-sum amount set aside in central appropriations to cover the cost of any pay raises for State and other employees that may be approved by the General Assembly. These raises are set each year, and the lump-sum amount set aside varies based on the percentage raise that is approved, and other factors.

These budget programs accounted for much of the overall growth in the State budget during the 1980s and 1990s. There are other ways of examining budget growth during this period, such as identifying the major spending initiatives that cut across agencies and budget programs, or that purposely sought to increase State spending on a particular activity.

SOME STATE INITIATIVES THAT DROVE SPENDING GROWTH

During the 20-year period of this review, Virginia embarked on several major initiatives that helped shape the State's overall pattern of spending. In some cases, these initiatives were proposed by a Governor and may have been a key campaign issue. In other cases, the initiatives stemmed from legislative or other sources. Once enacted, however, these initiatives remained significant sources of expenditure.

The funding history of these initiatives helps illustrate the complexity of Virginia's budget growth. These initiatives did not always grow in a smooth and uniform manner, yet came to be significant portions of the State budget. For example, funding for one of the initiatives profiled below (HB 599) remained flat for eight consecutive years, and then was increased by 148 percent in a single year, FY 2000. Two other initiatives were adopted late in the 20-year span of this review, but became significant funding items by FY 2000.

Some of the major State initiatives are listed in Table 10. These four, taken together, account for an estimated $1.4 billion, or seven percent of the FY 2000 State budget of $21.3 billion. Subsequent JLARC reports will provide more complete discussions of these and other major initiatives. Brief discussions of three of these initiatives are included in this report.

Table 10

Some Major State Initiatives Driving Spending Growth

1979	"HB 599" program established to provide State funding for localities with police departments. In FY 2000, $165.8 million was appropriated for this program.
1986	Transportation initiatives led to an increase in the State sales and use tax of 0.5 percent and an increase from 11 to 17.5 cents per gallon in motor fuel taxes, all earmarked for increased spending on transportation. In FY 2000, more than $650 million in transportation funding stemmed from the 1986 initiatives.
1992-93	Revenue stabilization fund established through constitutional amendment and enabling legislation. In FY 2000, $194.1 million was appropriated for this purpose.
1998	Personal property tax relief program adopted. $398.1 million was appropriated for this purpose in FY 2000.

Source: JLARC staff review of budget documentation.

"HB 599" Program

Named for the 1979 legislation that established it, this program provides State financial aid to Virginia's localities, with the intention of thereby reducing the need for annexation as a means of expanding the local tax base. The original concept behind this legislation was for the State to provide replacement funding to localities in exchange for limits on localities' ability to annex. Originally this legislation also provided for the State to pay 100 percent of the salaries of circuit court judges and certain local public safety officials, which has been accomplished. Over the intervening years, the reference to the "HB 599" program has come to refer primarily to State aid to localities with police departments, currently administered by the Department of Criminal Justice Services (DCJS).

The program provides State financial assistance to localities with police departments, as long as the department's officers meet the minimum State training requirements. Although receipt of the funds is contingent upon operating a police department, the statutes do not require localities to spend the funding on law enforcement. In FY 2000, 41 cities, nine counties, and 125 towns received a total of $165.8 million in funding through the program. Statutes tie budgetary growth of the program to the anticipated percentage change in general fund revenue collections.

The transfer of the "HB 599" program from central appropriations into DCJS caused that agency's budget to show a substantial increase, even though the program itself increased only modestly. Early in its history, the program was administered by the Department of Planning and Budget out of an item placed in central appropriations. When the re-assignment occurred, DCJS's budget increased 618 percent, from $11.1 million in FY 1986 to $79.7 million in FY 1987. Actual growth in the "HB 599" program between those two years was a much more modest $4.7 million, or less than eight percent.

The "HB 599" statute (*Code of Virginia* §9.1-166 *et seq.)* sets out an elaborate formula for determining how much of each year's appropriation should be allocated to each eligible jurisdiction. The formula attempts to estimate or predict the eligible localities' crime rates using population, population density, actual crime rates, and welfare caseload rates as variables in a multiple regression analysis. Each locality's share of the total is based on its predicted crime rate compared to the predicted crime rates of all other eligible localities.

The complex pattern of growth in this program illustrates how the State budget is sometimes driven by broader policy and budgetary considerations. Funding growth in this program was rapid through the 1980s. As shown in Table 11, in its first ten years the "HB 599" appropriation grew 80 percent, from $44.7 million to $80.5 million by FY 1991. The appropriation then was reduced about 17 percent in the recessionary budget of FY 1992 to $67.0 million. The program remained level funded at about $67 million for eight years, until the 1999 General Assembly provided an additional $99 million to restore "full funding" to the program in FY 2000.

Table 11

"599" Funding

Fiscal Year	Appropriation	Percent Change
1981	$ 44,726,800	
1982	$ 46,975,800	5.0%
1983	$ 49,586,725	5.6%
1984	$ 51,869,580	4.6%
1985	$ 57,004,670	9.9%
1986	$ 61,958,085	8.7%
1987	$ 66,675,055	7.6%
1988	$ 71,742,370	7.6%
1989	$ 76,875,298	7.2%
1990	$ 79,104,679	2.9%
1991	$ 80,505,279	1.8%
1992	$ 67,032,016	-16.7%
1993	$ 67,020,780	0.0%
1994	$ 67,020,780	0.0%
1995	$ 67,020,780	0.0%
1996	$ 66,881,506	-0.2%
1997	$ 66,883,910	0.0%
1998	$ 66,883,910	0.0%
1999	$ 66,883,910	0.0%
2000	$ 165,757,814	147.8%

Dollars shown are not adjusted for inflation.
Source: JLARC staff review of Appropriation Acts, FY 1981 – FY 1984; Department of Criminal Justice Services, FY 1985 – FY 2000.

Revenue Stabilization Fund

Although in effect for only a portion of the 20-year period covered in this review, the revenue stabilization fund has been a significant appropriation. Partly in response to the revenue shortfall experienced by the Commonwealth in 1990, the JLARC Subcommittee on the Executive Budget Process examined the "rainy day" funds used by other states as a means of coping with budgetary shortfalls. A 1991 JLARC report (*Proposal for a Revenue Stabilization Fund in Virginia*) documenting the Subcommittee's findings included the significant point that forecast error is a normally occurring part of the forecast process – shortfalls and surpluses are to be expected. As noted by JLARC's chairman at the time of adoption:

> In plain English, a revenue stabilization fund is a savings account for the Commonwealth. Thirty-eight other states have similar measures, but Virginia's Constitution essentially requires that all revenues are spent as they are received. Consequently, in years of revenue surplus, there is tremendous pressure to spend every penny of tax revenue that is collected. In theory, taxes could be cut, but often the amount of surplus is so small that there is no practical way to do so. Further, experience tells us that needs are great and there is an equal chance of a comparable shortfall in a future year. So, each year all collected revenues are spent. Wouldn't it be better to *save* a small percentage of revenues in surplus years? We think so.

Given the uncertainty of revenue forecasting, along with the likelihood of future revenue downturns in conjunction with the business cycle, the JLARC Subcommittee recommended a constitutional amendment to establish a revenue stabilization fund for Virginia.

A constitutional amendment requiring such a fund was subsequently adopted by the General Assembly, placed on the ballot in the 1992 general election, and overwhelmingly approved by the citizens of Virginia. The amendment provides that whenever revenues rise faster than the average of the previous six years, half of that surplus goes into the stabilization fund. Conversely, if revenues drop more than two percent below forecasted levels, the legislature is authorized to use money from the fund to meet up to half of the shortfall.

Since the fund's inception, only deposits have been made. No withdrawals have been required. Because of the formula set out in the

Constitution of Virginia for calculating the amount of the deposit, the required deposit may vary from zero to, in FY 2000, the final year covered by this review, $194 million (Table 12). The amount paid in during one year has no bearing on the amount to be paid the next year. It should be noted that payments into the revenue stabilization fund are not expenditures in the conventional sense. Principal and interest are held on deposit by the Comptroller, and remain available for use in future years, as required by the constitutional amendment. The funds must be appropriated so they appear as such in the Appropriation Act, but the money remains on reserve with the Comptroller.

Although outside the timeframe of this study, it should be noted that this program continued to have large appropriations in the 2000-2002 Appropriation Act. The FY 2001 appropriation was $103.3 million, bringing the total in the fund (including interest) to $715.6 million. The FY 2002 appropriation is $163.1 million.

Personal Property Tax Relief Program

Like the revenue stabilization fund, the personal property tax relief program was in effect for only a portion of the 20-year timeframe of this report. Appropriations for this program grew so quickly, however, that by FY 2000 it was the 13th largest item in the State budget. Unlike the revenue stabilization fund, where the deposit amount may vary substantially from one year to the next, the tax relief program will be a major ongoing and recurring State appropriation.

Table 12

Deposits to Revenue Stabilization Fund

Fiscal Year	Deposit (millions)
1995	$ 79.9
1996	$ 0.0
1997	$ 66.6
1998	$ 58.3
1999	$123.8
2000	$194.1

Note: According to the Comptroller's preliminary report of August 15, 2001, the fund had $715.6 million in principal and interest on reserve.

Source: Secretary of Finance, presentation to joint money committees, 12/20/00.

The personal property tax is a local tax paid by vehicle owners and collected by all cities and counties in Virginia. As adopted by the General Assembly, the repeal took the form of a five-year phase-out of the personal property tax on vehicles valued less than $20,000, with certain conditions or "triggers" that had to be met in terms of general fund revenue growth for the phase-out to take effect. Under the statute, as long as these conditions were met during the phase-in period, the State would provide funding to the localities to compensate for their loss of revenue, and the next phase of the repeal would occur.

Once the relief program is fully implemented, local taxpayers will pay no personal property tax on the first $20,000 of a vehicle's assessed value. The phasing of the program is shown in Table 13. While the completion of the phase-

Table 13

Scheduled Phase-out of the Personal Property Tax Relief Program

Tax Year	Scheduled Percentage Reduction in Personal Property Taxes
1998	12.5%
1999	27.5%
2000	47.5%
2001	70.0%
2002	100.0% (The Governor has announced that this phase may be delayed)

Source: *Code of Virginia* §58.1-3524.

out is subject to actions taken by the General Assembly, this schedule is reflected in the statute. It should be noted also that this tax is levied and paid by taxpayers on a calendar year basis, while the State appropriates funds to reimburse localities on a fiscal year basis. This makes accurate forecasts of expenditures more difficult, as does the timing of localities' applications for the State reimbursement.

Returning money to taxpayers is not the same type of "expenditure" as, for example, meeting the State's payroll or paying a contractor. However, under this tax relief program the State makes payments to localities, which count as expenditures in the State accounting system. Under the *Constitution of Virginia,* such funds must first be appropriated. Rapid growth in appropriations is a hallmark of this program. In the first year of the phase-out, FY 1999, $219.9

million was appropriated. The second year appropriation (FY 2000) was $398.1 million.

Although outside the timeframe of this study, it should be noted that this program had the fifth largest budget in the 2000-2002 Appropriation Act. The FY 2001 appropriation was $572.4 million, and the FY 2002 appropriation is $855.4 million. When fully implemented, the car tax phase-out program is estimated to cost $1.2 billion annually.

CONCLUSION

Virginia's budget has grown as a result of State attempts to meet the needs of an increased population, and in response to citizen demands for increased services. This can be seen in the State's commitment to increase appropriations for education, Medicaid, transportation, public safety, and other broad government functions.

Findings in this chapter also show that much growth occurred in direct service programs and in financial assistance provided to localities, who in turn directly provide such services as elementary and secondary education. Additional sources of growth in the State budget were found in specific initiatives to provide tax relief, to set aside a "rainy day" fund, and to compensate localities for accepting limits on annexation.

III. The General Fund Revenue Forecasting Process

HJR 773, one of the mandates for this review, notes that the State budget is based on generally accurate revenue forecasts, but that changing economic conditions may affect these forecasts. Both HJR 773 and HB 2865 (creating §30-58.3 of the *Code of Virginia*) also give JLARC a broad mandate to review the budget process. At a June, 2001, planning meeting, Commission members asked JLARC staff to review the role of the revenue forecast in the broader context of the budget process and budget growth, paying special attention to forecast accuracy.

This chapter addresses the definition of revenue, outlines the legal framework of Virginia's general fund revenue forecast, discusses revenue growth and forecasting procedures, and reports the accuracy of the general fund revenue forecast for fiscal years 1981 to 2000. Some of the material in this chapter references and builds upon a 1991 JLARC report, *Revenue Forecasting in the Executive Branch: Process and Models*.

STATE REVENUE SOURCES

Total State revenue increased by 293 percent between FY 1981 and FY 2000, as shown in Table 14. Total tax revenue grew 310 percent during the same period, including a 430 percent increase in individual and fiduciary income taxes and a 299 percent increase in sales and use taxes. By FY 2000, these two taxes generated 84 percent of the State's general fund revenues.

Table 14

State Revenue by Source
(Dollars in millions)

Source	Fiscal Year 1981	1985	1990	1995	2000	Growth 1981 to 2000
Individual & Fiduciary Income Tax	$1,289	$1,948	$3,082	$4,028	$6,829	430%
Sales and Use Taxes	$645	$931	$1,585	$1,935	$2,574	299%
Motor Fuels Taxes	$311	$332	$606	$688	$827	166%
Corporate Income Taxes	$182	$288	$310	$376	$566	210%
All Other Taxes	$579	$976	$1,024	$1,304	$1,534	165%
Total Tax Revenue	***$3,007***	***$4,474***	***$6,607***	***$8,331***	***$12,330***	***310%***
Federal Grants and Other Revenue Sharing	$1,444	$1,422	$1,900	$3,024	$3,912	171%
All Other Non-tax Revenue	$1,352	$1,854	$3,354	$5,206	$6,573	386%
Total Non-tax Revenue	***$2,795***	***$3,276***	***$5,254***	***$8,230***	***$10,485***	***275%***
Total Revenue	**$5,802**	**$7,750**	**$11,861**	**$16,561**	**$22,815**	**293%**

Dollars shown are not adjusted for inflation.
Source: Comprehensive Annual Financial Report, Department of Accounts.

The principal focus of the revenue forecasting process is general fund growth. General fund revenues are not restricted in any way, and are available for appropriation for any governmental purpose. Because these revenues are unrestricted, much attention is focused every year on estimating how much will be available in the next several years. Much of this effort in turn hinges on understanding the components of the general fund, and on what constitutes "revenue" to the State.

Defining Revenue

A clear understanding of what constitutes "revenue" is necessary prior to discussing how it is forecasted. Virginia uses several definitions of revenue, depending on the specific context of the financial matter being discussed. Key definitions are summarized in Exhibit 1.

General Fund Revenue Forecast. For purposes of forecasting general fund revenues, a fairly narrow definition of revenues is used, one that includes taxes collected primarily by the Department of Taxation and paid into the State treasury. As of the December 1999 forecast, the Department's general fund forecast included estimates for eight major tax sources of the general fund. These included:

- corporate income tax,
- individual income tax (withholding),
- individual income tax (non-withholding),
- sales and use tax,
- public service corporation gross receipts taxes,
- life insurance premium taxes,
- property and casualty insurance premium taxes, and
- revenues from fees on wills, suits, deeds and contracts.

The State Corporation Commission collects the insurance taxes included in this definition of general fund revenue.

Official Revenue Estimates. Payments to the State are reflected in the "Official Revenue Estimates" sub-total on the first page of the Appropriation Act, including funds from certain additional sources. According to Department of Planning and Budget (DPB) staff, any transaction that results in a deposit into

Exhibit 1

Revenue Definitions

Definition of Revenue	Source or Where Defined	Major Components
General Fund Revenue Forecast	Department of Taxation Forecast (Released by Governor)	Individual income taxes, corporation income taxes, sales and use taxes, public service corporations gross receipts taxes, insurance premium tax.
Official Revenue Estimates	Appropriation Act, p. 1	Tax collections forecast by the Department of Taxation, prior year Medicaid recoveries, lump sum deposits to the general fund.
Total General Fund Revenues Available for Appropriation	Appropriation Act, p. 1.	General fund forecast, unreserved balances from prior fiscal year, transfers from ABC and Lottery.
Revenue Stabilization Fund Trigger Revenues	*Constitution of Virginia*	Individual income taxes, corporation income taxes, and sales and use taxes.

Source: JLARC staff analysis.

the State's general fund from outside the State may be added to Taxation's forecast as a step in calculating "total revenues."

Lump-sum payments are one example of such transactions that may be added. These have included payments made by Trigon during the mid-1990s as part of an insurance privatization settlement, and 40 percent of the Tobacco Master

Settlement Agreement (MSA) funds received by the Commonwealth (60 percent of the MSA funds were designated for specific purposes, and 40 percent remained undesignated, for deposit into the general fund.) Such lump sum payments are counted as revenue by DPB regardless of whether legislation separate from the Appropriation Act was required in order for the State to accept the payments.

General Fund Revenue Available for Appropriation. A broader definition is used for the total general fund revenue available for appropriation, as reported on the first page of the Appropriation Act. This definition is spelled out in the Appropriation Act (for example, in §4-1.04.a1 of Chapter 1072, *2000 Acts of Assembly*), which states that "revenues" include payments deposited into the State treasury during the current biennium, together with all unexpended balances brought forward from the previous biennium. The portion of such payments that derive from taxes are forecasted by the Department of Taxation, and reviewed and approved through a process described later in this chapter.

Balances carried forward from the prior year, transfers, and interest are also included in this definition of total general fund revenue available for appropriation. According to §2.2-809 of the *Code of Virginia*, balances on the books of the Comptroller at the end of the fiscal year are to be brought forward on the first day of the new fiscal year, becoming the starting point for the general fund. Transfers include payments from other State non-general funds into the general fund; for example, profits from the Lottery Department are treated as transfers, as are certain other items, such as recoveries for management and service fees (indirect costs) from certain non-general funded agencies. Finally, interest on the general fund, as forecast by the Department of the Treasury, is included in total revenue.

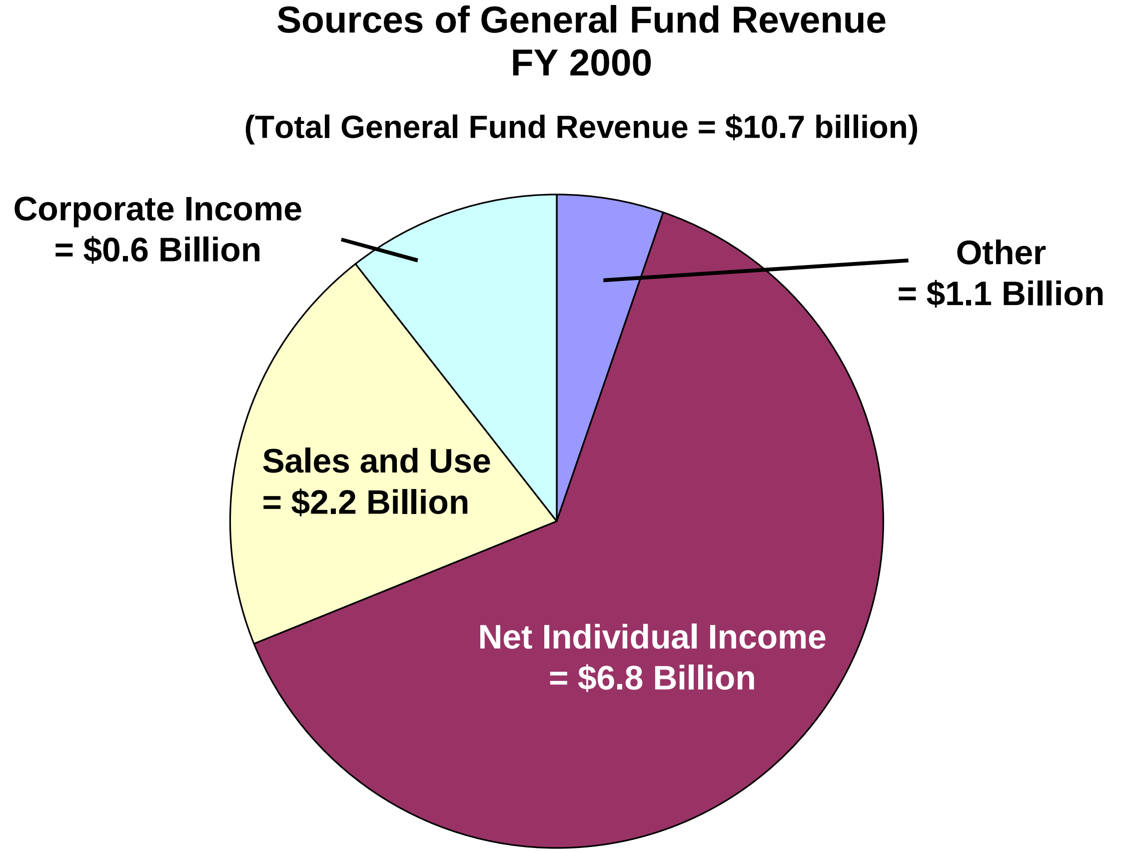
Other Definitions. There are other definitions of revenue. One example is the definition for specifying the revenue stabilization fund “triggers.” This definition is more limited than the others, as it includes only the certified totals for the individual income tax, corporate income tax, and the sales and use tax. These three taxes are a subset of the Department of Taxation general fund revenue forecast, accounting for about 90 percent (as of FY 2000) of that forecast.

Tax Components of the General Fund

The principal general fund revenue sources include individual and fiduciary income taxes, sales and use taxes and corporate income taxes. Figure 8 identifies the amount of general fund revenues coming from each revenue source in FY 2000. In FY 2000, 64 percent of general fund revenues came from individual income taxes, 21 percent from sales and use taxes, five percent from corporate income taxes, and ten percent from other taxes. The remaining five percent included transfers and other revenues. Three taxes constitute the bulk of general fund revenues – individual income taxes, sales and use taxes, and the corporate income tax.

Individual Income Tax. This is the largest component of general fund revenues, bringing in $6.8 billion in FY 2000. This tax source grew 430 percent between FY 1981 and FY 2000 (Table 14) – a faster rate than experienced by other major tax sources. As a result, this tax has become more important to State finances, growing from less than 40 percent of the general fund in FY 1970 to

Figure 8



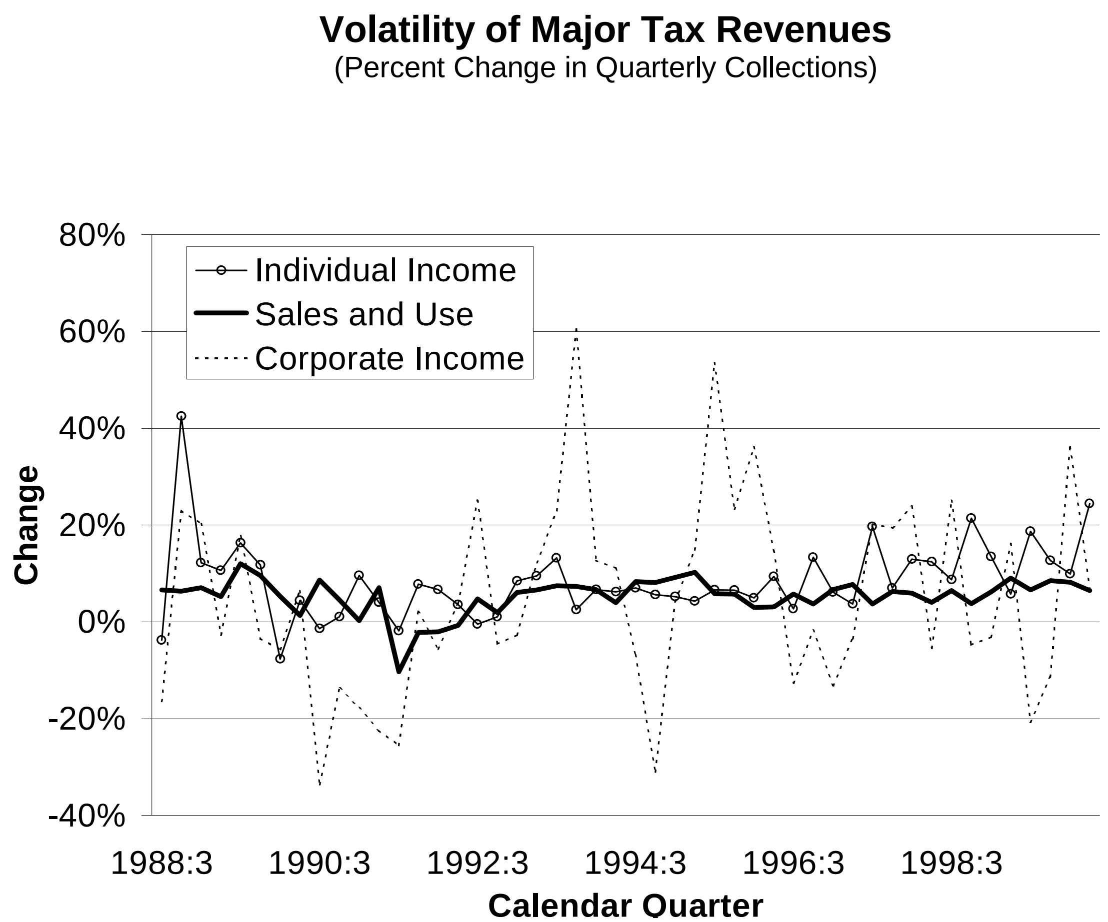
Source: Department of Taxation.

64 percent in FY 2000. By comparison, in FY 1998, the other states received only about one-third of their general fund revenues from this tax.

From a forecasting standpoint this tax is a relatively stable revenue source to track. Figure 9 indicates the relative volatility of the individual income tax, compared with the corporate income and sales and use taxes. The individual income tax appears more stable than the corporate income tax, with the sales and use tax perhaps being more stable yet.

Virginia's individual income tax "conforms" to the U.S. income tax. Conforming with federal taxes means that the Virginia tax begins with federal

Figure 9



Source: Department of Taxation.

adjusted gross income and adjusts that with various additions, deductions and exemptions to reach Virginia taxable income. Models of Virginia income taxes can thus rely on the performance of federal taxes, making the Virginia forecasting process less uncertain.

Sales and Use Taxes. Sales and use taxes are the second largest source of general fund revenues, bringing in $2.6 billion in FY 2000, $2.2 billion to the general fund. Two cents of the 3.5-cent sales tax is dedicated to the general fund and accounted for 21 percent of that fund in FY 2000. A one-cent portion of each

3.5 cents of the sales tax goes to local school divisions for Standards of Quality (SOQ) costs, while a half-cent portion is dedicated to transportation uses.

In FY 2000, Virginia's sales tax ranked the lowest nationwide in terms of sales tax per capita, and as a percent of personal income, among the 45 states that levied a general sales tax. The sales tax has become a smaller portion of total general fund revenues, falling from around 28 percent of the total in FY 1970 to 21 percent in FY 2000.

Corporate Income Taxes. The corporate income tax is a distant third in terms of its contribution to general fund revenues, bringing in $0.6 billion in FY 2000, approximately five percent of the general fund. This tax is assessed against the net income of corporations doing business in Virginia. The corporate income tax has accounted for a decreasing share of the general fund since 1970 when it contributed about nine percent of total general fund revenues. In the other 49 states, the average share of general fund revenues from corporate income taxes was six percent in FY 1998.

This tax is also a federal conformity tax. The corporate income tax is, however, the most volatile of the three major tax sources (Figure 9). Changes in the level of economic activity and in the business cycle are strongly reflected in corporate income taxes. Since FY 1989 the average quarterly change in corporate income taxes has been 16.3 percent. This compares to 9.1 percent for individual income taxes, and 6.0 percent for sales and use taxes.

The next section of this chapter outlines the revenue forecasting process. The chapter concludes with reporting on the accuracy of the general fund forecast between FY 1981 and FY 2000.

THE REVENUE FORECASTING FRAMEWORK

The legal basis for Virginia's revenue forecast is found in the *Code of Virginia* and the Appropriation Act. Section 2.2-1503 of the *Code of Virginia* requires the Governor to annually submit to the General Assembly "an estimate of anticipated general fund revenue, and estimates of anticipated revenues for each of the major non-general funds, for a prospective period of six years." The Governor's estimates are to be based on input from three forecasting sources: forecasts of economic activity in Virginia, a review of economic assumptions and technical econometric methods by the Governor's Advisory Board of Economists (GABE), and a review of economic assumptions and the general economic climate of the Commonwealth by the Governor's Advisory Council on Revenue Estimates (GACRE).

The Appropriation Act (in for example §4-1.04 a.2 of Chapter 1072, *2000 Acts of Assembly*) restricts appropriation amounts to the extent that "the general fund revenues are estimated by the Governor to be sufficient to pay in full all appropriations payable from the general fund revenues." A similar restriction applies to non-general fund revenues. The Act also assigns the Governor the "power, authority, and responsibility to re-estimate the total general fund revenues to be available during the current or next biennium."

Similarly, the Appropriation Act states that the Governor cannot reduce general fund allotments of appropriations because of reduced revenues until he provides a formal written re-estimate of general fund revenues for the current and next biennia prepared according to the process specified in Section 2.2-1503 of the *Code of Virginia*. This re-estimate must be delivered to the Chairmen of the Senate Finance, House Finance, and House Appropriations Committees.

These two statutory parameters integrate the revenue forecasting process into the budgeting process at two points. First, the December revenue forecast is the basis of the budget submitted by the Governor to the General Assembly. Second, after the Appropriation Act is in place, a re-estimate of revenues can restrict the use of already appropriated funds. Both types of revenue estimates -- the initial forecast and any midbiennium re-estimates -- are governed by the three-fold requirement that they be based on Virginia economic forecasts, reviewed by GABE and by GACRE.

Forecasting Participants

The revenue forecasting process in Virginia involves numerous organizations and agencies in the executive and legislative branches, as well as private sector personnel. This section identifies the major participants in the revenue forecasting process and their most important tasks.

The Secretary of Finance typically coordinates the revenue forecasting process. The 1991 JLARC report noted that the primary agencies involved in the process are in the finance secretariat. The Secretary chairs the GABE meeting, makes presentations to GABE and GACRE and distributes information on revenue forecasts and revenue collections.

Several agencies run economic and revenue estimate models during the revenue forecasting process. The Department of Taxation produces forecasts of Virginia economic conditions that are then used, along with other data, to forecast general fund revenue sources. The Department of Motor Vehicles uses the economic forecast and other data to estimate transportation-related taxes such as motor fuels taxes and new vehicle licenses. Other important revenue estimates are provided by the Lottery Department (lottery profits), Department of Alcoholic Beverage Control (ABC sales), Treasury (general fund interest), and the Virginia Employment Commission (payroll deposits to the unemployment trust fund.) The Department of Planning and Budget (DPB) combines these estimates into general and non-general revenue estimates, and then reports them on the first page of the budget bill.

Two groups, GABE and GACRE, provide important reviews of the economic and revenue forecasts produced by the agencies mentioned above. GABE is chaired by the Secretary of Finance and meets each October to review forecasts of US and Virginia economic conditions. GABE membership generally includes academic and private sector economists, including a representative from the Richmond Federal Reserve Bank.

GABE reviews forecasts of the U.S. economy (developed by a private economics consulting firm) and the Virginia economy (developed by the Department of Taxation). GABE assesses the soundness of the assumptions driving these forecasts and may make individual presentations of relevant information. GABE members select two forecasts to present to GACRE, and make their recommendation as to which forecast is the most likely. The Department of Taxation may then adjust the revenue forecast to incorporate the advice of GABE on Virginia and national economic conditions. The forecast horizon reviewed by GABE in 2000 was through FY 2004.

The second major review group is the Governor's Advisory Council on Revenue Estimates (GACRE) that meets each November. The Governor chairs GACRE. Other members (appointed by the Governor) have recently included executives of major Virginia corporations, the President of the Richmond Federal Reserve Bank, and the leadership of the General Assembly: the Speaker of the House of Delegates, the Majority Leader of the House, the President *pro tempore* and the Majority Leader of the Senate, and the Chairmen of the House Committees on Appropriations and Finance and the Senate Committee on Finance.

GACRE receives reports on possible economic scenarios selected by GABE and addresses questions designed to provide the Governor with additional information on the revenue forecast. These questions have focused on the expected strength of the Virginia economy, the business plans of particular industries in terms of hirings, layoffs, compensation and related matters, and opinions on specific economic forecasts.

The final participants in the revenue forecasting process are the Governor, DPB, and the General Assembly. The Governor and DPB build the State budget and the General Assembly appropriates the funds for that budget.

The estimates of future revenue necessarily constrain the executive budgeting process, therefore the development of the budget involves setting and adjusting spending priorities so that they do not exceed anticipated revenues. In its role of appropriating funds, the General Assembly must rely on these same revenue estimates in determining the reasonableness of the Governor's budget proposals. The role of the General Assembly is discussed further in the next section.

Legislative Role in Forecasting

The General Assembly's current role in forecasting revenue is limited to observing the GABE and GACRE meetings. Members of the House Appropriations and Senate Finance staff, as well as staff representing the Department of Legislative Services and JLARC, have attended GABE and GACRE meetings in recent years. Legislative staff attending the GABE meeting do not vote on the forecasts being discussed.

At the GACRE meeting, General Assembly members are asked to provide their input, along with the more specific comments made by the business members. Another substantive role played by the General Assembly has been periodic review, through JLARC, of the revenue forecasting process and the accuracy of forecasts presented to the General Assembly.

Based on JLARC staff research for the 1991 report, there are several levels of involvement typically taken by state legislatures in the revenue forecasting process. These include:

- limited legislative involvement, such as Virginia's approach, with some participation by legislators in the executive branch forecasting process;

- a technical assessment, where a technical expert reviews the executive branch's forecast;
- joint legislative and executive consensus role, where staff within each branch of government generate a forecast, and then they or another group combine the forecasts in a consensus approach; and
- an independent legislative role, where the legislature produces and uses its own revenue forecast.

The Virginia General Assembly historically has chosen a limited role in the revenue forecasting process. This is typical of states with a strong executive branch revenue forecasting process. State legislatures taking this role are typically limited to reviewing and commenting on the executive revenue forecast process.

The 1991 JLARC report identified several advantages and disadvantages to the Virginia approach. This approach offers low costs, and because it produces a single forecast, simplifies the process with a general absence of public debate over the forecast. A disadvantage of this approach is that it reduces the legislature's role in substantive decision-making about the forecasts.

As to the other levels of legislative involvement, the 1991 report noted that there are both advantages and disadvantages to increasing the role of the General Assembly in the revenue forecast process. Advantages include an increased understanding and perhaps comfort level with the process and thus its results. Disadvantages to increasing the role of the General Assembly in the forecasting process include increased resource costs in terms of legislators' time commitments, potentially to the point of requiring additional specialized staff. There is also the potential for increasing the level of political conflict over the results of the revenue forecast. Under any increased role for the General Assembly, a clear statutory framework outlining the exact responsibilities of all parties involved would make an effective process more viable and less subject to confusion and potential political conflict.

A 1997 National Conference of State Legislatures (NCSL) review provides some additional information on the structure and role of revenue forecasting in other states. This NCSL review found that the executive branch has primary responsibility for developing the revenue forecast in 17 states, including Virginia. The others are Alaska, Arkansas, California, Georgia, Idaho, Maine, Maryland, Minnesota, New Jersey, North Dakota, Oklahoma, Oregon, Pennsylvania, Rhode Island, Texas, West Virginia, and Wisconsin. A further 22 states produced a revenue forecast through what NCSL called a consensus process, where more than one governmental branch participates in producing the forecast. Eleven states used some other method.

NCSL also identified whether the revenue forecast in each state binds the budget. According the NCSL review, the revenue forecast binds or restricts the budget in 26 states, including Virginia, and does not in the other 24.

FORECAST PROCESS

The revenue forecasting process generates a six-year estimate of revenues presented to the General Assembly in December of each year. As a result, a particular year's revenue will be forecast multiple times by the end of that fiscal year. The revenue forecast cycle for a given General Assembly Session is linked to the most recent forecast developed in the previous year and released in December.

There are a number of steps in the revenue forecasting process. These steps provide for extensive statistical and data analysis, including the judgment of

State finance staff and officials, as well as input from economics professionals and members of Virginia's business community.

Steps in the Forecasting Process

The first steps in the revenue forecast process involve the Department of Taxation compiling initial economic forecasts to be presented to GABE, which meets in October (Exhibit 2). GABE selects a standard and alternative economic forecast. The Department of Taxation uses these to generate sets of revenue estimates and presents them to GACRE, which meets in November. These two committees' recommendations are used in the first "official" revenue forecast released by the Governor in December.

According to Department of Taxation staff, they always run a mid-session revenue estimate, although – depending on its results – a recommendation to adjust the December forecast may not always be made. In seven of the last ten years the Governor used this mid-Session forecast as a replacement for the December forecast. In years when the mid-Session forecast is recommended to replace the December forecast, the mid-Session forecast becomes the second "official" forecast.

Just before adjournment of the General Assembly, the official forecast (either the one made in December or in mid-Session) is incorporated into the budget bill, together with any adjustments required as a result of legislation. The end result is then voted on by the General Assembly. The Governor takes action on the budget bill after the General Assembly adjourns. A budget bill, when adopted by the General Assembly and signed by the Governor, is referred to as the Appropriation Act.

Exhibit 2

Revenue Forecast and Budget Cycle Steps

Time Period	Revenue Forecast Step	Tasks Completed in Revenue Forecast Step	Budget Process Step
Summer/ Early Fall	"Initial" Revenue Forecast	National and Virginia economic forecasts to present to GABE	Budget Instructions to Agencies, Agency Budget Submissions
October	GABE Review	GABE recommends a standard and an alternative economic forecast to be used in revenue forecasts to present to GACRE review.	
November	GACRE Review	GACRE comments on reasonableness of revenue forecast in light of business conditions.	
December	Governor Releases the Forecast (1st "official" forecast)	Forecast reflects economic conditions, and GABE and GACRE review comments.	Governor Submits a Budget
January			Budget Referred to Money Committees
General Assembly Session	Mid-Session Update of the Forecast (2nd "official" forecast)	Additional revenue data is used to update the revenue forecast. Results may prompt replacing December forecast with Mid-Session forecast as new "official" forecast.	Legislative Amendments to the Budget, Passage of the Budget Bill
April	Forecast Update Incorporating Tax Policy Changes Approved by the General Assembly (Final "official" forecast)	Analysis of the effects of tax policy changes are incorporated into the revenue estimates.	Governor Signs Appropriation Act

Source: JLARC staff analysis.

The final forecast for the cycle is made after adjusting the models to account for changes in Virginia tax law made during the session. This forecast becomes, for historical purposes, the final "official" forecast. This is the forecast which the Governor and Secretary of Finance generally refer to when discussing forecast accuracy. For example, the Secretary of Finance indicated that the FY 2000 forecast was the "most accurate forecast since FY 1983" in his August 2000 presentation to the General Assembly. This observation was based on the general fund forecast completed in the spring 2000, just a few months before the end of the fiscal year in question.

A few months after the General Assembly adjourns, the process begins again with updates to the post-Session economic forecasts that become the forecast presentation to GABE in the second year of the biennium.

Revenue Forecasting Methods

Four broad methodological tasks must be completed to generate the general fund revenue forecast. The Department of Taxation has the lead role in each. The process begins with a forecast of economic conditions in the United States and the Commonwealth. To obtain a variety of opinions on the U.S. economic situation, Taxation subscribes to national economic forecasts developed by a private firm (DRI-WEFA) and also uses forecasts prepared by a second firm, RFA/ Economy.com. These forecasts are used as inputs into the State econometric model developed and maintained by the Department.

The Department of Taxation forecasts conditions in Virginia with the State econometric model. This model also addresses major employment categories in the State’s largest metropolitan areas, such as federal military employment in the Norfolk-Virginia Beach-Newport News area, and business professional services employment in Northern Virginia. The model includes 225 equations, 65 of which apply to metropolitan areas.

The second broad task is a Department of Taxation estimate of major revenue sources, using regression models. These models rely on historic tax collections and on results from the national and State economic forecasts. There are separate models for individual income tax withholdings, individual income tax non-withholdings, sales and use taxes, and corporate income taxes, in addition to other smaller revenue sources.

The third task requires the Department of Taxation to account for the major tax policy changes adopted by the General Assembly in the previous Session. This task is completed in late spring or early summer.

Finally, the fourth task, if required, involves manual adjustments to the models based on Taxation staff judgment. These adjustments provide the model builders with the opportunity to fine-tune the model given known shortcomings in the raw economic data.

The 1991 JLARC report found that the forecast models used by the department were reasonable, but that there were potential improvements to be made in other areas of the process. For instance, JLARC staff noted that maintaining and reporting more detailed revenue data might improve the incorporation of tax policy changes. In addition, JLARC staff recommended that the department fully document judgmental changes to the forecast so that an outside observer could reproduce the forecast and determine the share of forecast error deriving from each step.

In response to JLARC staff queries, the department has recently indicated that these recommendations have been implemented. The remainder of this chapter presents the error rates of the general fund revenue forecast for fiscal years 1981 to 2000.

FORECAST PERFORMANCE

Accuracy is the key to any forecast's performance – with accuracy defined in terms of an error rate. This error is the degree to which the forecast over- or under-predicts actual revenues collected. The 1991 JLARC report on Virginia's revenue forecasting process made several points about forecasting error that remain valid. First, every revenue forecast has had some error. There are always some differences between a forecast and collections. Second, the further out a forecast is from the end of the fiscal year being predicted, the less accurate the forecast tends to be. As noted earlier, the most accurate forecasts have been the ones completed only a few months prior to the end of the fiscal year.

This report covers a 20-year timeframe, from FY 1981 to FY 2000, a longer period than the 1991 JLARC report. This is a long enough period to have included one full business cycle and two recessions. As a result of examining forecast accuracy over this longer period, a third finding emerged: in periods of economic growth, the models tend to under-estimate revenues, and in periods of economic slowing or decline, the models tend to over-estimate revenues.

In the following discussion JLARC staff defined the error rate as:

Error Rate = ((Actual Revenues – Forecast Revenues)/Actual Revenues) X 100%

The percentage error is always in terms of the actual revenues collected. For instance, if a forecast predicts $10 billion in revenues and actual revenues collected are $9 billion, the error rate of -11.1 percent means that the difference between actual revenues and the forecast was equal to 11.1 percent of actual collections. A negative number means that the forecast over-estimated actual revenues – it was too optimistic. Conversely, a positive number means that the forecast under estimated actual revenues – it was too pessimistic. The following section discusses sources of forecast error and mechanisms that hedge against error in Virginia, then presents forecast error first in terms of forecast horizon, then in terms of the business cycle.

Sources of Forecast Error

In general, forecast error can be expected in the revenue forecast for at least three reasons. First, forecasts of certain key economic indicators, such as employment, personal income, and population, are used to forecast State revenue. Predicting these economic indicators is difficult, and generates error. Consequently, the revenue forecast that depends on these indicators will incorporate that uncertainty.

Second, a more dramatic source of error includes unforeseen economic shocks that can cause a turn in the business cycle, particularly in an economy on the brink of a downturn. The recent terrorist attack against the United States is a prime example of a specific shock to the national economy that simply cannot be predicted. These systemic shocks tend to hit certain sectors particularly hard, and this effect gradually passes throughout the rest of the economy.

Unexpected responses to changes in Virginia tax law also introduce error in the revenue forecast. While these changes are included in subsequent models of economic and revenue forecasts, it is possible that taxpayers will not respond exactly as predicted, resulting in revenue collections that differ from what was predicted. While models used by the Department of Taxation are designed to account for these changes, the complexity of the public response still contributes to potential forecast error.

<u>Hedges Against Forecast Error</u>

The consequences of forecast error are two-fold depending on the direction of the error. If the forecast underestimates revenues collected, a major consequence is that the State develops and approves a budget appropriating fewer dollars than were actually available. A surplus may remain in the general fund, which may be used in the following budget year. If correctly anticipated, those funds could have been used to provide for a higher level of government services, or some combination of increased services and tax relief measures. On the other hand, the more severe consequence of forecast error – that of over-estimating revenues – is that the State may be unable to implement the original budget due to a shortfall in available revenues.

The State has at least three ways to respond to error in the revenue forecast. First, the General Assembly may amend and adjust any year's appropriations at least twice through second year and "caboose" or final Appropriation Acts. This permits the budget to be adjusted as revised forecasts become available.

Second, the requirement in the C*onstitution of Virginia* for a balanced budget means that, in the case of a revenue shortfall, the Governor may be obligated to reduce expenditures. Appropriations, after all, are ceilings on expenditures, and the Appropriation Act authorizes the Governor to reduce spending (within certain limits) should revenues fail to materialize.

A third important means of coping with a revenue shortfall is the revenue stabilization fund. As of August, 2001, the Comptroller estimated the value of this fund at $715 million, with an additional deposit of $187 million due by the end of FY 2002. This fund operates as a hedge against downside error in the general fund forecast because the General Assembly may appropriate money from the fund (under certain conditions) to meet a portion of the revenue shortfall.

Forecast Error Improves Closer to Fiscal Year-End

The general fund forecast becomes more accurate the closer the target fiscal year is to the date of the forecast. In other words, the shorter the forecast horizon, the lower the forecast error. One reason is that forecasts of a given fiscal year made during that fiscal year have the benefit of several months of actual data.

JLARC staff collected data on the accuracy of the general fund forecast at six points prior to the fiscal year being forecast. These points include three horizons for December official forecasts released by the Governor that are six, 18, and 30 months in advance of the close of the fiscal year being forecast. For example, the six-month revenue forecast for FY 1999 was released in December, 1998. Similarly, the 18- and 30-month forecasts for FY 1999 were released in December, 1997, and December, 1996, respectively.

Three additional forecast horizons reflect revenue estimates that appear in Appropriation Acts. These three forecasts are voted on by the General Assembly and signed into law by the Governor, and represent forecast horizons of approximately three, 14, and 26 months before the close of the fiscal year being forecast. The 26-month forecast is the second year revenue estimate in the first

Appropriation Act of the biennium. The 14-month forecast is the first year revenue estimate in the first Appropriation Act of the biennium and the second year estimate in the second year Appropriation Act of the biennium. The three-month forecast is the first year estimate from the second Appropriation Act of the biennium, and the second year estimate from the caboose Appropriation Act for the biennium.

Error rates improve (decrease) the closer the forecast is to the fiscal year being forecast. Table 15 summarizes the average absolute forecast error for these six forecast horizons along with the range of forecast errors at each horizon. The three- and six-month forecasts rely on several months of actual revenue collections and thus forecast less than a full year of revenues. The other four forecasts are forecasting an entire fiscal year.

Table 16 provides the raw data used to calculate these average error rates. Error rates generated by the Department of Taxation December forecasts are recalculated according to the formula used by JLARC staff to measure error in terms

Table 15

Forecast Error at Different Forecast Horizons

Forecast Horizon[1]	Error Rate (Absolute Mean)	Range of Errors (Lowest and Highest)
3-Month	1.0%	-2.7% to 2.0%
6-Month	1.8%	-3.9% to 3.2%
14-Month	4.0%	-14.2% to 8.0%
18-Month	5.7%	-13.3% to 8.1%
26-Month	6.2%	-21.2% to 11.0%
30-Month	8.4%	-20.1% to 13.6%

1. The forecasts at 3, 14, and 26 month forecasts occur approximately that many months prior to the FY being forecast due to different dates for passage of the respective Appropriation Acts. Forecasts at 6, 18, and 30 months are the December forecasts that many months prior to the end of the fiscal year being forecast.

Source: JLARC staff analysis of Appropriation Acts, Department of Taxation data.

Table 16

Annual Forecast Errors

(Over Forecast is Negative)

Fiscal Year	Forecast Horizon (Months Until End of the Year Being Forecast)					
	3-Month[1]	6-Month[2]	14-Month[3]	18-Month[4]	26-Month[5]	30-Month[6]
2000	0.1%	1.8%	7.4%	7.7%	11.0%	11.5%
1999	1.6	2.2	6.2	7.2		13.6
1998	2.0	3.0	8.0	8.2	9.2	9.4
1997	0.3	3.2	1.9	4.4		5.3
1996	1.7	1.0	2.0	2.1	1.5	2.3
1995	0.7	0.8	0.4	1.0		3.6
1994	0.4	0.9	1.9	2.2	3.1	5.7
1993	1.8	2.5	3.2	5.6		1.4
1992	0.8	0.8	-2.9	-3.8	-21.2	-20.1
1991	-0.4	-0.8	-14.2	-13.3		-16.5
1990	-2.7	-3.9	-10.3	-9.4	-4.4	-3.2
1989	0.4	0.7	2.8	3.5		
1988	N/A	2.2	3.4		5.3	
1987	1.8		3.1			
1986	-0.9		0.4		1.0	
1985	-0.1		2.4			
1984	0.9		0.9		-3.2	
1983	-1.7		-5.7			
1982	-1.0		-1.0		1.6	
1981	-0.1		2.2			

1. First year estimate in the second year Appropriation Act, and second year estimate in "caboose" Appropriation Act. No caboose bill was produced in FY 1988.
2. Department of Taxation forecast in December before the General Assembly Session.
3. First year estimate in first Appropriation Act, and second year estimate in second year Appropriation Act.
4. Department of Taxation forecast in December two years prior to General Assembly Session.
5. Second year estimate in first year Appropriation Act.
6. Department of Taxation forecast in December three years prior to General Assembly Session.

Source: JLARC staff analysis of Appropriation Acts, Department of Taxation.

of actual revenue collected. This recalculation does not substantively change the mean absolute error. These numbers can be plotted graphically to highlight the relationship between forecast error and forecast horizon.

Figures 10 through 12 plot the forecast error in percent terms for the forecasts included in the Appropriation Act, that is, the three month forecast, the 14-

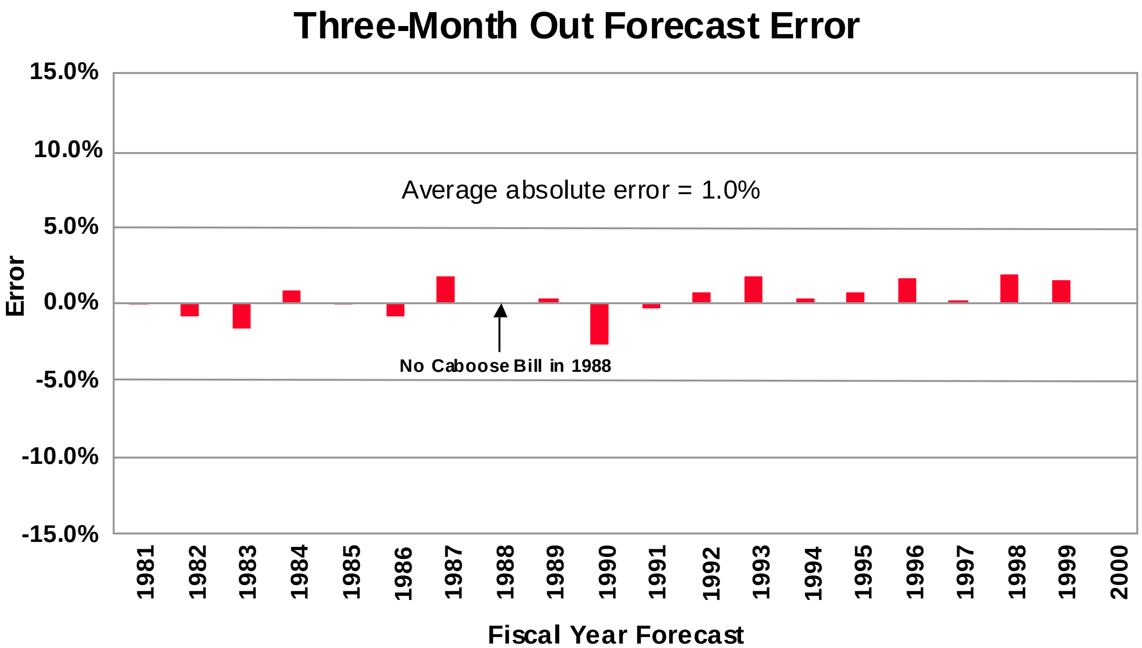
month forecast, and the 26-month forecast. As each of these forecast horizons are plotted on the same scale, the increase in error is evident, moving from the three month to the 26-month out forecast. Figure 13 plots these three forecast error series for comparative purposes.

Forecasts based on these three horizons are contained in the budget bill and voted on by the General Assembly. The shortest forecast horizon (3 months) reflects the revenue estimate approved by the General Assembly in the current year when there are three to four months remaining in the fiscal year (Figure 10). The range of errors for this forecast horizon between FY 1981 and FY 2000 was between –2.7 percent and +2.0 percent. The average absolute forecast error for this horizon was 1.0 percent of actual collections.

Forecast error rates for the 14-month out horizon have a wider range than the three-month error rates (Figure 11). This forecast represents the forecast of the first year in the first year Appropriation Act and the forecast of the second year in the second year Appropriation Act. The range of forecast error for this forecast horizon between FY 1981 and FY 2000 was between –14.2 percent and +8.0 percent. The average absolute forecast error at this horizon was 4.0 percent of actual collections.

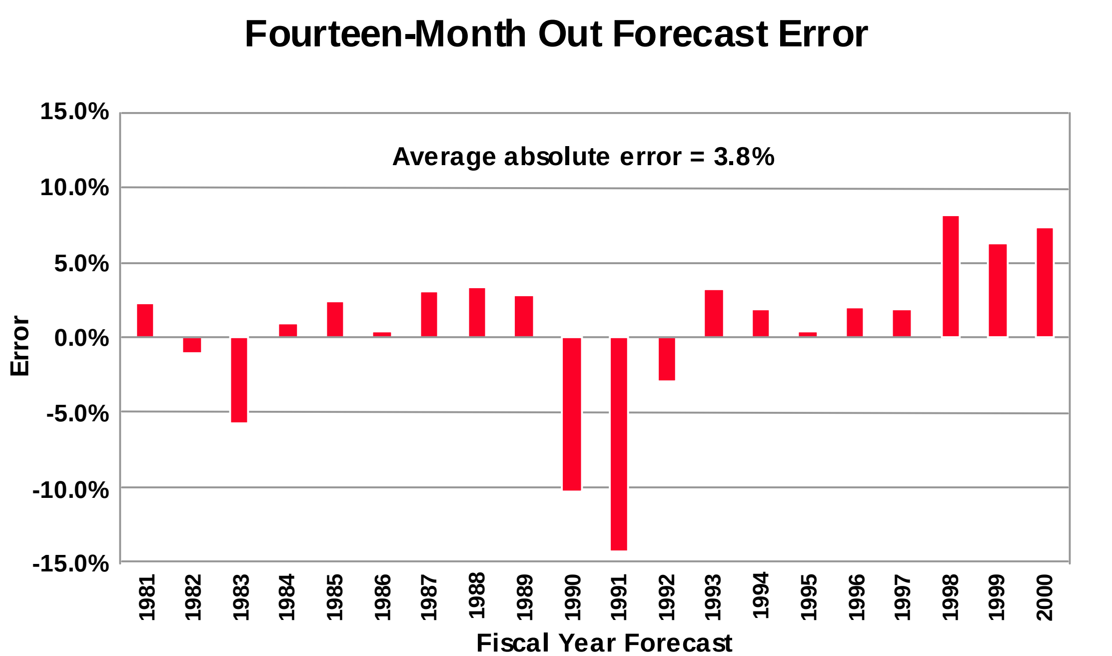
Figure 12 shows the 26-month out forecast error rates. These forecasts are the second year forecast in the first year Appropriation Act. With an error range between –21.2 percent and 11.0 percent, this forecast horizon results in the least accurate estimates of the three approved by the General Assembly in adopting the

Figure 10



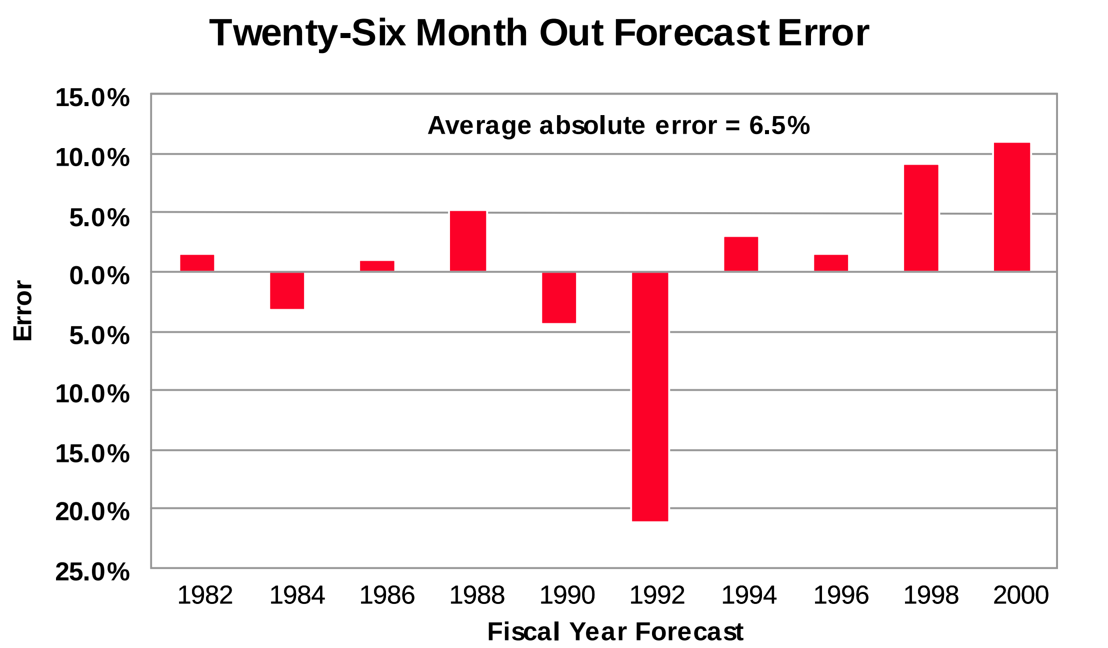
Source: JLARC staff analysis of the *Acts of Assembly*, and Department of Taxation data.

Figure 11



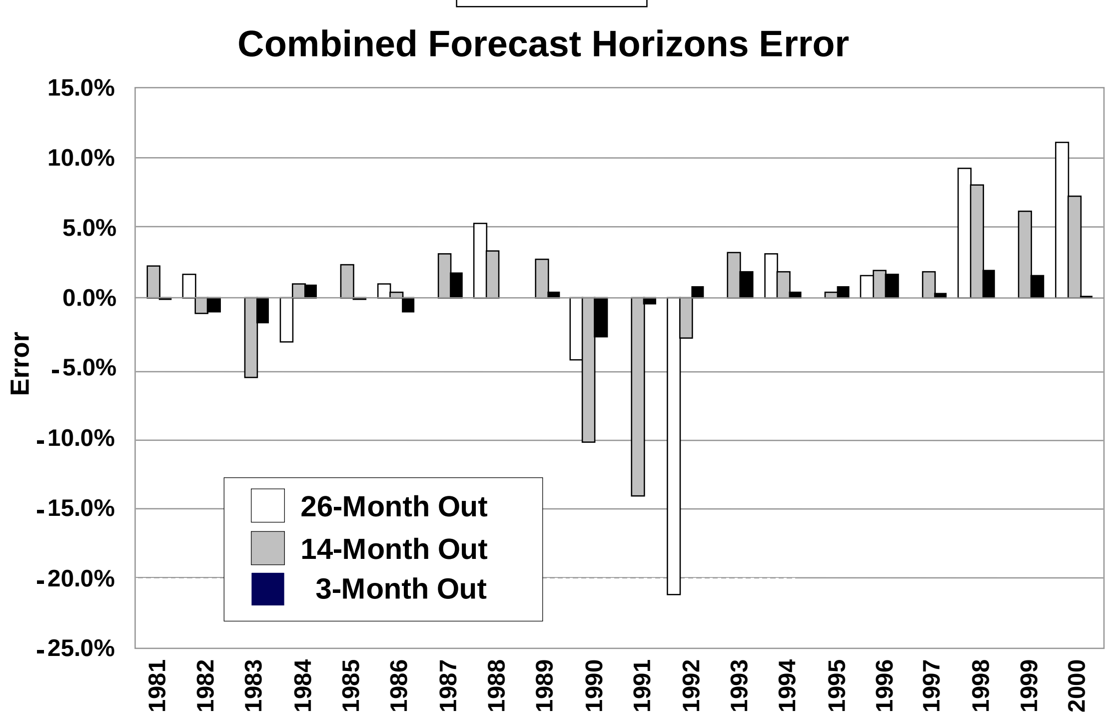
Source: JLARC staff analysis of the *Acts of Assembly*, and Department of Taxation data.

Figure 12



Source: JLARC staff analysis of the *Acts of Assembly*, and Department of Taxation data.

Figure 13



Source: JLARC staff analysis of the *Acts of Assembly*, and Department of Taxation data.

Appropriation Act. The average absolute forecast error at this horizon was 6.2 percent of actual collections.

Figure 13, which combines the data presented on figures 10, 11, and 12, illustrates the generally larger forecast error rates for the longer forecast horizons. While the pattern does not hold every year, the average forecast error decreases as forecast horizon decreases.

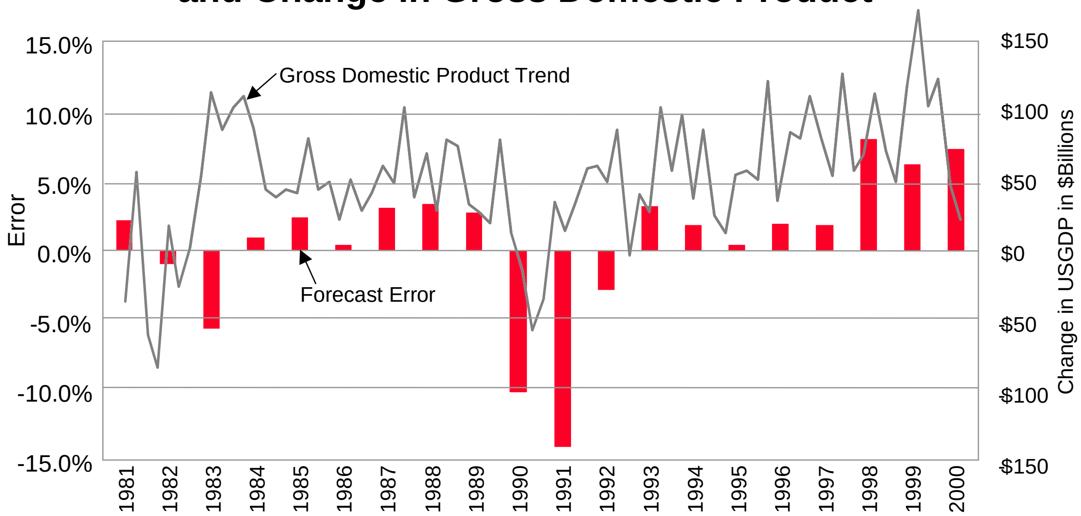
Forecast Accuracy and the Business Cycle

The direction of the forecast error tends to depend on the phase of the business cycle. In good economic times, the revenue forecast error rates tend to be positive – in other words, the forecast tends to under-estimate revenues. In bad economic times, the forecast error rates tend to be negative; the forecast tends to over-estimate revenues. The correlation between forecast error and changes in economic activity was examined through statistical analysis, and can be observed by comparing forecast errors and measures of economic activity, in Figure 14.

Virginia revenue collections are to a relatively large extent dependent on the strength of the national economy. JLARC staff compared the quarterly change in gross domestic product (GDP, the final dollar value of all goods and services produced within the nation) to the quarterly change in general fund revenues and found a correlation of +0.73 between the two. This signifies a moderately strong relationship between the two factors and means that when economic activity increases, revenue increases, while economic downturns reduce revenues.

Figure 14

General Fund Fourteen-Month Out Forecast Error and Change in Gross Domestic Product



Source: JLARC staff analysis of the *Acts of Assembly*, Department of Taxation data, and U.S. Bureau of Economic Analysis.

JLARC staff also examined the correlation between forecast error and change in annual GDP. The correlation is high, indicating the strong relationship between forecast error and the business cycle. For the 14-month forecast these correlations are 0.90. This relatively high correlation means that, over the 20-year period under review, an increase in GDP or economic activity tended to be accompanied by an under-forecast of revenue. Similarly, a decrease in GDP tended to be accompanied by an over-forecast of revenue.

Figure 14 combines quarterly change in GDP data reflecting the business cycle with forecast error rates over a 14-month horizon. The periods of economic slowing or recession clearly coincide with over-estimates of revenue. Two national recessions, depicted in the timeline, occurred in the early 1980s and early 1990s --

as shown by the negative change in quarterly GDP. During these periods of economic contraction, the 14-month revenue forecast shows revenues being over-estimated. Similarly the rapid economic expansions during the mid- to late 1980s and late 1990s are accompanied by revenue forecast errors that under-estimated actual collections.

These observations indicate that forecast errors tend to under-estimate available revenues during economic expansions and to over-estimate revenues during economic contractions.

FORECASTING PROCESS IS REASONABLE

Several conclusions can be drawn from this assessment of the revenue forecasting process for the years FY 1981 to FY 2000. First, the Virginia revenue forecasting process is based on reasonable forecast models and is similar to the process used by a number of states. The Virginia process provides for relatively less legislative involvement than in many states, but has the advantage of informing the legislature at minimal cost. Second, the revenue forecasting process is integrated into the executive budgeting and legislative appropriations processes. The *Code of Virginia* and the Appropriation Act set the legal parameters for the forecasting process. The forecast results – because of a constitutionally required balanced budget – bind the State's appropriations.

Another conclusion is that forecast error cannot be avoided in revenue forecasting because of uncertainty over economic data, unforeseen economic shocks, and the difficulty of predicting individual taxpayer responses to State tax policy and national economic conditions. In response to this error, Virginia decision-makers have multiple opportunities to adjust spending in subsequent budget bills, and the potential use of the revenue stabilization fund as a “forecast-error” fund.

In addition, forecast error increases with longer forecast horizons. Forecasts used by the General Assembly as it plans for an upcoming biennium will be less accurate than forecasts included in a current year or “caboose” budget bill. These planning forecasts will also be less accurate than post-session “official” forecasts that are reported by the Department of Taxation.

Finally, forecast error tends to be systematically related to the business cycle. The forecast tends to over-estimate revenue in economic downturns and to under-estimate revenues in economic upturns.

IV. The Development and Use of Performance Measures in Virginia

House Joint Resolution 773 of the 2001 Session of the General Assembly directed JLARC to review performance budgeting and performance measurement. This resolution provided JLARC with a specific mandate to analyze current performance management practices and recommend ways in which performance management tools can be used more systematically to improve State government. The HJR 773 mandate builds on a JLARC role in studying and assessing performance measurement that goes back to the early 1990s. This chapter summarizes those earlier efforts, overviews the current state of performance measurement in Virginia State government, and identifies areas needing improvement and future review.

Three interrelated terms apply to different aspects of this review: performance measurement, performance management, and performance budgeting. Definitions of these terms vary somewhat, depending on the context of their use. For the purposes of this report, performance measurement relates to the collection and reporting of specific data relating to agency or program inputs, outputs, or outcomes. Performance measures are tied to “targets” that are goals related to each measure.

Performance management refers to the use of performance measurement data in the operation of a program or agency. Performance management features the use of performance measures, but typically also makes use of evaluations, strategic plans, and other information.

Performance budgeting refers to budgeting systems that build on performance measures and performance management. Theoretically, performance budgeting links agency and program appropriations to targeted levels of performance. Operationally, there are few examples of appropriation or budgetary decisions being directly linked to performance management. More often, one finds that systems of performance measures and performance management are simply additional sources of information that decision makers may use in the decision making process.

While in many ways Virginia has a model system of strategic planning and performance management, this system is still in a developmental stage. Early efforts at performance measurement have evolved into a more comprehensive system of performance management. This overall system of performance management is under the general supervision of the Department of Planning and Budget (DPB), which defines performance management as being "comprised of four linked processes: strategic planning, performance measurement, program evaluation, and performance budgeting." Within the overall system of performance management, individual agencies have wide latitude in selecting measures to manage their own performance. DPB has provided agencies with training, guidance, and a web site for posting agency measures and other performance information. All executive branch agencies develop strategic plans and performance measures, which are provided to executive and legislative decision makers.

Virginia's system of strategic planning and performance management has been recognized nationally. Among other honors, in February 2001 *Governing Magazine* gave Virginia a grade of A- for "Managing for Results," the highest grade given to any state in this category.

Despite Virginia's position relative to other states, there is only limited use of State-level performance information in decision making, oversight, management, or planning. Performance measures are rarely, if ever, cited by high-level legislative and executive branch decision makers. At the agency level, use of performance information varies widely. Some agencies make little use of the system at any level. Other agencies effectively use performance information as part of their day-to-day operations. Several agencies have been recognized for their internal use of performance information. In 2001, four State agencies were recognized by the U.S. Senate Quality and Productivity Award program: the Virginia Retirement System, the Department of Motor Vehicles, the Department of Mines, Minerals, and Energy, and the Department of Taxation.

The performance budgeting aspects of Virginia's system are limited. While performance information is submitted to decision makers concurrent with the Governor's budget recommendations, there is no direct linkage between this information and budgetary decisions or outcomes. In this respect, Virginia is similar to other states. At this time, no states have been identified in which budget decisions or outcomes are directly linked to or directly affected by specific performance information or targets.

This JLARC review provides background information on the development of performance measurement in Virginia State government, including a detailed summary of actions taken over the past ten years. In addition, several illustrative reviews of agency use of performance measures are presented, and each agency profile in this report contains a brief section on that agency's use of performance measures. Finally, interim recommendations are proposed for the current system of performance management in Virginia State government.

THE DEVELOPMENT OF PERFORMANCE MEASURES IN VIRGINIA STATE GOVERNMENT

Performance measurement, performance management, and performance budgeting have been under development in Virginia since the early 1990s (Exhibit 3). First efforts in this area were studies of performance measures in other states and pilot programs for selected State agencies. In 1995, Governor George Allen directed the implementation of a statewide system of strategic planning and performance measurement. Since that time, agencies have developed – with DPB guidance – strategic plans and a limited number (about five each) of performance measures. These measures were included in the 1998 budget and were submitted simultaneously with the budget in 2000.

In 2001, agency performance measures were comprehensively reported by DPB on a web-based system called *Virginia Results*. This system

Exhibit 3

Performance Management Initiatives: Key Events

- 1990 – DPB surveys 49 other states regarding use of performance measures
- December 1991 – JLARC Report Review of the Executive Budget Process recommends development of performance measures on pilot basis
- 1992 – Appropriation Act mandates pilot program
- 1993 – All federal agencies are required to develop strategic plans and performance measures by the Government Performance and Results Act of 1993
- December 1993 – DPB issues Performance Measures Pilot Project report
- 1994 – DPB Report and Proposal on Strategic Planning and Performance Measurement
- 1995 – JLARC study, The Concept of Benchmarking for Future Government Operations, recommends expanded effort
- June 1995 – Executive Memorandum 3-95 provides framework for performance based budgeting process
- 1996 – DPB initiation of performance management statewide in executive branch agencies; agencies develop measures
- 1996-98 – Biennial budget includes performance measures
- 1998-2001 – Performance measurement data submitted with budget requests
- 2000 – House Bill 1065 establishes in statute DPB's role in development, coordination, and implementation of a performance management system "involving strategic planning, performance measurement, evaluation, and performance budgeting." Act also creates the Performance Management Advisory Commission
- 2000 – Appropriation Act directs JLARC to review "upon request" of DPB agency performance measures
- 2001 – House Bill 1847 requires DPB to report to the legislature on agency performance management progress
- 2001 – DPB creates *Virginia Results*, a web-based performance management site that captures strategic planning and performance management information for all executive branch agencies; agencies subsequently begin to maintain their sections of the *Virginia Results* web site
- 2001 – HJR 773 directs JLARC to conduct "an analysis of the use of performance budgeting, performance measurement, and program evaluation information in the legislative budgeting process and how the information can be more systematically used for program improvement and budget decision making by legislators"

Source: JLARC staff analysis of pertinent documents.

serves as a compendium of all agency measures, tracks statewide "quality of life" indicators, and provides instructions and overview information on performance budgeting and measurement. Beginning in 2001, agencies began to enter measures and performance information directly on to *Virginia Results*.

Early State Efforts to Develop Performance Measures

Performance measurement has been under development in Virginia for over a decade. In response to a 1991 JLARC recommendation and a General Assembly directive (Item 271 of the 1992 Appropriation Act), DPB initiated a comprehensive pilot study of performance measures in 1992. The study involved 24 programs in 21 different agencies. Eight of the programs reported "very good progress," but in 16 programs "further development and refinement" were needed. Agencies reported benefits such as:

> … increased understanding of programs and their objectives, increased focus on program performance, enhanced teamwork and coordination, promotion of interdepartmental communication and collaboration between persons who do not ordinarily work together, encouragement for the agency to obtain input from customers and clients, and better control of programs through an enhanced understanding of their accomplishments.

Problems noted by agencies focused on measurement issues, such as data collection problems and lack of control groups. The DPB study concluded that performance measures had great potential and recommended continuation and expansion of the pilot.

In the 1994 Appropriation Act (Item 332), the General Assembly directed DPB to continue its study of performance measures. It asked DPB to report by December 1, 1994, and to include "a plan for developing the performance measurement system on a statewide basis." In December 1994, DPB released the report, "A Strategic Planning and Performance Measurement Proposal for the Commonwealth of Virginia." The report found that 65 of 102 responding agencies and institutions conducted formal strategic planning and 37 were developing performance measures. It recommended that the "executive branch conduct performance measurement and strategic planning as an integrated process." The process outlined in the DPB report is essentially that which was implemented statewide in 1995.

Statewide Implementation of Strategic Planning and Performance Measurement

In 1995, Virginia moved from pilot programs to statewide implementation of strategic planning and performance measurement. The policy was established in Executive Memorandum 3-95 titled "Goal Setting and Performance Budgeting" released by Governor George Allen June 2, 1995. Budget instructions were issued to agencies in August 1995 and included direction on the development of performance measures. The instructions laid out a process that was essentially a traditional goal attainment model, emphasizing the preparation of agency-level goal setting and performance measures.

In his directive to agencies, Governor Allen urged managers to rethink their missions from a results-oriented, mission-driven perspective.

> An assessment of Virginia state government is an ongoing process. Past priorities and missions must be reexamined not only in the context of today's needs, but also in light of tomorrow's expectations. Agencies must be customer-focused, results-oriented, and mission-driven. Today's well-informed citizens demand greater choice, increased customization, and quality. We must look toward relying

> more heavily on market mechanisms for resolving problems. Each agency must examine these factors to identify ways in which Virginia state government can become more creative, flexible, and entrepreneurial in responding to our citizens' needs.

Using these guidelines, in 1996 agencies submitted performance measures and targets to their Secretaries and DPB. DPB reviewed and compiled this information for distribution to legislators and executive branch decision makers. This process continued until 2001, when DPB budget instructions directed agencies to input performance information directly into the *Virginia Results* web site. *Virginia Results* will be discussed in detail later.

DPB budget instructions relating to performance measures have been heavily oriented to the development of goals, objectives and strategies by agencies and the linkage between these and performance measures. Specifically, all executive branch agencies have been directed to develop:

> … performance measures that will be used to evaluate success in achieving your agency's mission and objectives during the biennium. Performance measures give your agency, the administration, and Virginia citizens a clear view of the benefits achieved through the agency's investment in programs, staff, and equipment.

That agencies have always had the latitude to develop their own performance measures is a constant feature of Virginia's system of performance management. The executive branch has taken this approach to assure agencies that performance management will be used to improve governmental performance and goal attainment, not to punish agencies for failing to meet targets that they themselves set. As one DPB manager stated, "we don't want agencies to think the measures are being developed for 'gotcha' purposes."

While this approach may have allayed agency fears, it has also meant that agencies can select measures in non-controversial areas in which they are most likely to succeed. Further, the approach may have resulted in isolating the development of performance measures from the real day-to-day activities and priorities of State agencies and consequently limited their value to decision makers.

CURRENT STATUS OF PERFORMANCE MEASUREMENT IN VIRGINIA

Performance measures have been developed for all Virginia executive branch agencies. For much of 2001, these measures have been collected from agencies and posted on *Virginia Results*, the internet-based planning and performance site of the Department of Planning and Budget.

Agencies have generally complied with the 1995 gubernatorial directive and subsequent budget instructions. Agencies have produced strategic plans, mission statements, and required performance measures. State agencies and institutions have developed approximately 800 performance measures. However, the system in place today does not seem to be an integral part of executive branch decision making, management, or budget development. In addition, there is little use of performance management information by the General Assembly.

Initial interviews by JLARC staff of managers at several agencies earlier this year would seem to indicate that the development of strategic plans and performance measures have not substantially changed or affected agency management or budgetary practices. Some high level managers were not even aware of what their performance targets were, or who in their agency developed them. As JLARC's study of State spending practices continues, further review of agency planning and performance management will be conducted.

Virginia Results **and Current Performance Management Initiatives**

The Department of Planning and Budget has moved from a paper-based system of strategic planning and performance measurement to a web-based system. This system, *Virginia Results*, is a publicly accessible site linked to the State's home page. (The web site is located at http://www.dpb.state.va.us/VAResults/VRHome.html).

Virginia Results consists of eight sections that overview Virginia's performance measurement system, detail agency strategic planning and performance information, and provide other links and resources (See Exhibit 4). The Governor's overall goals and objectives for the State are outlined in the statewide strategic plan section. In addition, the site provides a comprehensive section on statewide quality of life indicators.

When fully operational, the site will be a valuable resource for decision makers and the public who are interested in agency plans and performance. One of the key strengths of the system is that it will provide management information and results across multiple years and administrations. As Virginia's Governors cannot succeed themselves, this ability to track information over several administrations should provide a useful alternative source of information

Exhibit 4

Key Contents of *Virginia Results* Web Site

The home page for Virginia's Performance Management System, *Virginia Results* consists of information, links, and instructions related to performance management in State government.

Key sections include:

--Overview of Virginia's Performance Management System
--Agency Strategic Planning and Performance Information
--Statewide Quality of Life Indicators
--Commonwealth Performance Management Training
--Performance Management Materials
--Statewide Strategic Plans
--Performance Management Links
--DPB contact information and agency forms and instructions

Source: *Virginia Results* web site (http://www.dpb.state.va.us/VAResults/VRHome.html).

to the snapshots that are often provided by a gubernatorial administration. Tracking performance measures over time should also make it more difficult for a new administration to abandon the goals and objectives of an earlier administration without some public notice of the change in policy.

Agency Strategic Planning and Performance Information

A major component of *Virginia Results* is the section on agency strategic planning and performance information. This section contains the strategic plan and selected performance measures for 103 agencies. For each agency, information is presented on the agency's strategic planning, selected performance measures, and agency contact information. Agencies have been provided with access to the web site and directly enter this information onto the website. For performance measures, agencies enter information for a base year (often 1995 or 1996) and data on the measure for every year thereafter. Data are also provided on how the measure is calculated, the preferred direction of results, and the actual direction of results. Figure 15 provides an example of a performance measure used by the State Lottery Department and how this information is presented on *Virginia Results*.

The following case example shows the potential value of the information presented by the Lottery Department on the *Virginia Results* database.

> *A key measure for the State Lottery Department is the net dollars the department transfers to the State general fund. The preferred direction of the trend is positive (more money going into the general fund), but the measure shows that a decrease actually occurred from 1996 through 2001. The availability of this data over multiple years provides a valuable perspective. For example, an examination of FY 2000 transfers ($323.5 million), FY 2001 transfers ($329.1 million) and the agency target ($314.0 million) gives the impression that the Lottery is a growing revenue source. The longer-term trend, however, indicates that revenues are at best flat, and have actually declined noticeably from a high of $342.5 million in FY 1997.*

Reported over time, information of this type may provide decision makers with valuable insights on agency trends and performance. As the system remains in place over a longer period of time, such trend data could be of even greater value to decision makers, as it will enable them to identify long-term trends that span gubernatorial administrations and priorities.

Performance Measures for Virginia Public Higher Education

One of the more fully developed and consistent categories of performance measures is maintained for institutions of higher education in

Figure 15

PERFORMANCE MEASURE INFORMATION: Measure 17201

State Lottery Department (172)

Virginia Results Home | Performance Info: Statewide | Performance Info: Agency 172

Measure text: Net dollars transferred to state's general fund at year end ($ in millions)

Current performance data for measure 17201:

Baseline	1996	1997	1998	1999	2000	2001	Target
323.5	332.6	342.5	318.9	321.9	323.5	329.1	314.0
Note							
NA							

Measure result is a number or percent: Number

Preferred direction of the trend of results: Increase

Actual direction of results (1996 - 2000): Decrease

Title/brief description of primary data source(s):

Financial statements of Lottery activity, as audited by the Auditor of Public Accounts.

Description of how the measure is calculated:

Net income is calculated using the accrual basis of accounting, where revenues are recognized when earned and expenses when incurred.

Description of how the baseline is calculated:

Baseline is the FY2000 (prior year) net income amount.

Description of how the target is calculated:

Target is the revised FY2001 forecast, from the Governor's Advisory Council on Revenue Estimates.

Source: *Virginia Results* web site.

Virginia. Even though university missions may differ substantially, they are still often more similar than those of other agencies. Despite their differences, one would expect the University of Virginia and Virginia Tech, for example, to be more similar than the Department of Transportation and the Department of General Services. Because of these similarities and because of its oversight role, common performance measures for higher education are being developed and monitored by the State Council of Higher Education for Virginia (SCHEV).

SCHEV collects information from Virginia institutions of higher education on 12 measures, including graduation rate, retention rate, graduates pursuing further education, classroom utilization, and credit hours per full-time faculty member. Examples of these measures can be seen in the agency profiles of the University of Virginia, Virginia Tech, and Virginia Commonwealth University, which are presented in Chapter V of this report. Results reported by the universities are posted on the SCHEV website (www.schev.edu/schevhome) which is linked to the *Virginia Results* website.

SCHEV collects and monitors performance information on institutions and links performance information to the "Reports of Institutional Effectiveness," available for each institution. Comparisons between universities are discouraged, because of differences in university missions.

Statewide Quality of Life Indicators

While agency-level performance measures generally reflect agency performance, and therefore are influenced by agency management practices, there are broader societal trends that may be beyond the direct influence of a specific State agency. Such trends may still, however, be of interest to State decision makers. Among other uses, trend information of this type can be used to compare Virginia's position to that of other states. Further, trend analysis of such information could identify potential problem areas before they adversely affect citizens' lives. Such measures can also be useful in goal setting. For example, the State may determine that it wishes to reach or exceed the national median on a given quality of life measure and develop strategies to do so.

DPB has begun to track quality of life information by monitoring and reporting on nine categories of statewide indicators. These categories are: community, economy, education, environment, families, government, health, safety, and technology. Exhibit 5 shows quality of life indicators for the community, economy, education, environment, and families categories.

Some of the measures, such as "gross state product per capita" and "average per capita personal income" in the economy category are clearly not within the State's direct control, but are still of interest and importance to decision makers. Having this information web-accessible can help give the public and decision makers quick access to accurate information that over time could contribute to the development of realistic policy choices. Other measures, such as the "percent of river and stream miles polluted" in the environment category, could lead to an interest in additional information. Policy makers and the public might ask "Why are data unavailable for all years?" or "What specific rivers and streams are polluted?"

Exhibit 5

Selected Quality of Life Indicators on the *Virginia Results* Web Site

Community

- Percent of voting-age Virginians who vote in national general elections
- Per capita monetary contributions to local charitable organizations
- Number of public charitable organizations
- Percent of families owning a home
- Percentage of income required by a low-income household to pay fair market rent (as determined by HUD) for a modest apartment in Virginia.

Economy

- Percent change in annual nonfarm employment
- Gross state product per capita
- Average per capita personal income
- Unemployment rate (percent)
- Number of new companies per 1,000 employees

Education

- Percentage of 8th grade Virginia public elementary school students passing the English section of the Standards of Learning exam
- Percentage of 8th grade Virginia public elementary school students passing the mathematics section of the Standards of Learning exam
- Percent of adults 25 or older in Virginia who have graduated high school
- Average tuition and fees at public universities
- Percent of adults in Virginia who have completed a baccalaureate degree

Environment

- Air pollution emissions (thousands of short tons)
- Percent of river and stream miles polluted
- Percent of pollution discharged into surface waters
- Energy use per capita (millions of BTUs)
- Per capita freshwater use (gallons per day)
- Percentage of nonfederal land developed

Families

- Percent of children under 18 in households below federal poverty line
- Number of families participating in the Temporary Assistance for Needy Families (TANF) Program
- Percent of children in families headed by a single parent
- Teen pregnancy rate (per 1,000 girls age 15-19)

Source: *Virginia Results* web site.

By tracking such statewide quality of life indicators, DPB provides decision makers with baseline and trend information that can be a valuable tool in monitoring societal indicators, developing policy options, and directing resources to address areas of identified need. Over time, such indicators can also help to measure the success (or lack of success) of broad gubernatorial or legislative initiatives directed at influencing quality of life issues.

The quality of life indicators currently on *Virginia Results* were selected by DPB staff. Legislators and other decision makers may wish to identify other quality of life indicators that they think should be monitored and reported by DPB. Data supporting such indicators could periodically be reviewed by the Auditor of Public Accounts to ensure the data are accurate and reliable.

As noted earlier, preliminary JLARC interviews with agency staff found that State-level performance measures were not a high priority element of agency managerial focus. As scrutiny of measures increases – through posting on a public web site, by regular APA audits, and by JLARC reviews – it is possible that agency management will devote more time to the function and attempt to more fully integrate the development of State-level performance measures into their managerial and budgetary practices.

EVALUATING PERFORMANCE MEASURES IN STATE GOVERNMENT

Performance measures developed by State agencies are reviewed in one form or another by three entities: DPB, the Auditor of Public Accounts (APA), and the staff of JLARC. In addition, SCHEV plays a role in developing and monitoring performance measures for institutions of higher education.

DPB's role primarily takes the form of assistance, training, and direction. The APA has begun to review a sample of agency performance measures to ensure that data supporting the measures are accurate and reliable. JLARC staff have begun to review measures under the provisions of HJR 773. For the most part, past reviews have concentrated on the form and not the content of the agencies' performance measures.

DPB's Review of Performance Measures

As noted earlier in this chapter, DPB has served as the architect of the executive branch's "linked" system of strategic planning, performance measurement, program evaluation, and performance budgeting. For the most part, DPB has assumed a role of direction and support, providing agencies with guidance on the form of their strategic plans and performance measures, but leaving decisions on the content of these largely to the agencies themselves. DPB has provided written guidance, training, and ongoing feedback to agencies. It does not, however, evaluate the measures on the basis of their content, nor has it systematically tracked whether agencies are achieving the performance targets that they have set. Instead, decisions regarding the selection of performance measures are left to the agencies and their secretariats.

Auditor of Public Accounts Review of Performance Measures

Beginning in 1999, the Auditor of Public Accounts (APA) has reviewed a sample of agency performance measures as part of its audit process. Generally, the APA tests a sample of measures to determine if the information provided in the measures is accurate and reliable. During FY 2000 audits, the APA tested

89 out of about 700 agency measures, focusing on those that were relevant to financial management. These audits found the information provided in the 89 measures to be 99 percent accurate. In addition, on tested measures, the APA found that:

- For 51 percent of the measures, agencies met or exceeded targeted performance levels (positive).
- For 45 percent of the measures, agencies did not meet the targeted performance level (unfavorable).
- For three percent, target information was not available.

During the course of its review, the Auditor's staff found that one performance measure had been dropped by an agency. On follow-up, the Auditor found that performance had declined for the measure in question. This instance reflects a weakness in the current system. Executive branch agencies are given the latitude to develop and select (usually with the approval of the cabinet secretary) the measures that they report to DPB. It is possible that an agency could deflect attention from declining performance simply by deleting a measure that indicated poor performance. Under the evolving *Virginia Results* process, where agencies enter performance data directly onto the web site, it would be difficult for all but the most vigilant observer to know whether a set of measures had changed. To address this concern, agencies should be required to provide a period of notice prior to removing performance measures from *Virginia Results.*

In May 2000, the APA released a special review on the reporting of performance measures to DPB by ten institutions of higher education. (At that time, higher education measures were still reported directly to DPB, not SCHEV.) The report found most higher education measures to be reliable and accurate, but with some inconsistencies between institutions. The Auditor also found that "management review is not sufficient to detect inaccurate reporting to DPB." Since the time of that report, SCHEV has taken the lead in developing and reporting performance measures for institutions of higher education.

The APA is continuing to audit a sample of agency performance measures. APA staff have indicated that more comprehensive reviews of performance measures are unlikely until there is evidence that measures are used meaningfully by agency managers and higher-level decision makers.

JLARC Review of Agency Performance Measures

As noted earlier in this report, JLARC has played a role in the development of performance measures in Virginia since the publication of its 1991 report on the executive budget process. In that review, JLARC recommended that State agencies develop performance measures on a pilot basis. Since that time, JLARC has addressed performance measures in several other reports, generally recommending their continued development and expanded use. In addition, beginning with the 1997 Appropriation Act, language has been included in the Act outlining for JLARC an advisory role to DPB. The 2000 Act states:

> JLARC, upon request of the Department of Planning and Budget and approval of the Chairman, shall review and provide comments to the Department on its use of performance measures in the State budget process. The Commission staff shall review the methodology and

> proposed uses of such performance measures and provide periodic status reports to the Commission.

In practice, this language has resulted in JLARC staff periodically reviewing measures submitted to DPB and providing feedback to DPB staff on those measures. In addition, staff from DPB or JLARC have briefed the Commission at least once a year on the status of performance measurement in Virginia.

The value of JLARC's comments to DPB has been limited, however, since it is the agencies, and not DPB, that have the final say on the content of their measures. Even if JLARC staff and DPB have agreed that agency measures may be flawed, it is up to the agency to decide if it wants to make a change.

HJR 773 gives JLARC a more direct mandate to evaluate agency performance measures and their utility. Under this mandate, JLARC staff have initiated a review of agencies' progress in attaining all performance targets listed on *Virginia Results*. In addition, staff will assess on a more limited basis the usefulness of selected agencies' measures in accomplishing overall agency missions. During the initial phase of JLARC's State spending study under HJR 773, staff performed reviews of performance measures submitted to DPB for two case study agencies: the Department of Motor Vehicles (DMV) and the Department of Medical Assistance Services (DMAS). In addition, summaries of agency performance measures are included in all of the agency profiles in Chapter V of this report.

In reviewing agency measures, staff found that the measures used generally reflect some important agency objectives, while not addressing other important areas. While this is consistent with a developmental system in which agencies are permitted to select their own measures and targets, consideration should be given in the future to developing measures that address all of an agency's key missions. In addition, the review found that some targets were consistently attained or exceeded, raising the possibility that the targets may not have been high enough to challenge agency performance.

Review of DMV Performance Measures. The Department of Motor Vehicles has placed three measures on *Virginia Results*. These measures focus on customer satisfaction, cost per customer served, and percent of customers using mail or electronic means for renewal transactions. It should be noted that DMV collects far more measurement information for internal management purposes than that presented on *Virginia Results,* and the agency has been recognized for its management and planning practices as a "Center of Excellence" in Virginia.

The DMV measure "cost per customer served" illustrates some of the complexities of monitoring performance measures. DMV adjusts these values to represent current dollar amounts. As a result, each year, when the CPI is updated, DMV recalculates past numbers to make the most recent year the new base-year of the inflation-adjusted numbers. The measure accurately notes that the actual direction of results (increase) is not the preferred direction of trend results (maintenance). The measure also retains the original base year (1995) providing useful time series information. The site does not explain, however, that

Exhibit 6

PERFORMANCE MEASURE INFORMATION: Measure 15402

Department of Motor Vehicles (154)

Virginia Results Home | Performance Info: Statewide | Performance Info: Agency 154

Measure text: Cost per customer served (in dollars)

Current performance data for measure 15402:

Baseline	1996	1997	1998	1999	2000	2001	Target
3.77	3.67	3.66	3.76	3.77	3.91	3.94	3.94
Note							
FY01 Excludes Weigh Station Program.							

Measure result is a number or percent: Number

Preferred direction of the trend of results: Maintenance

Actual direction of results (1996 - 2000): Increase

Title/brief description of primary data source(s):

Cost per Customer Served (CPCS) - This measure uses annual fiscal year expenditures, adjusted for inflation, and compares those to the annual customer base.

Description of how the measure is calculated:

CPI %change is applied to the total FY total expenditures to yield an agency expenditure level discounted for inflation. This adj. exp. level divided by the Customer Base(reg. veh+lic. drivers)= CPCS

Description of how the baseline is calculated:

Baseline is based on actual CPCS for FY95, initial starting point for tracking this measure.

Description of how the target is calculated:

Since the preferred direction of this trend of results is to maintain the cost per customer served, the previous fiscal year CPCS is used as the current FY's Target.

Source: *Virginia Results* web site.

the agency changed its target from its baseline of 1995 costs per customer ($3.77 in adjusted dollars) to the cost level of the previous year ($3.94 in adjusted dollars). Rather it states that "since the preferred direction of this trend of results is to maintain the cost per customer served, the previous fiscal year" is used as the target. If this approach is taken every year, the cost per customer target will simply rise to reflect whatever the previous years' costs were. Under the previous system, the target – even if missed – served as an incentive to curb costs.

DMV also changed its target for the measure "percent of DMV customer satisfaction." When JLARC staff looked at this measure in August, the target was 90 percent of customers satisfied, which was the base achieved in 1996. DMV had met or exceeded this goal every year, achieving 95.6 percent customer satisfaction in 2000. DMV has since raised the target for this measure to 96.0 percent customer satisfaction. The effect of this change will be to challenge DMV employees to improve on an already high level of customer satisfaction. DMV has not changed the target for its third measure, the percent of customers using the mail or electronic transactions, though it exceeded the target in FY 2000 and FY 2001.

Overall, DMV seems to be using performance measures in a constructive manner, though its cost per customer served target should be reassessed. These three measures do not reflect all of DMV's policy objectives, but – under the current system – DMV is not required to comprehensively measure its performance. Given the fact that performance measures have been under development for all Virginia executive branch agencies since 1995, policy makers might want to consider designating measures and targets that DMV should measure and achieve. For example, none of DMV's measures relate to its role in voter registration or truck weight enforcement. In theory, the General Assembly or the Governor could designate this as a DMV performance measure.

Review of DMAS Performance Measures. The Department of Medical Assistance Services (DMAS) currently reports five performance measures (Exhibit 7). When JLARC staff reviewed DMAS measures in August, 2001, the agency reported six measures. DMAS has dropped a measure on the number of dental providers in the Virginia Medicaid program, which was an area in which the agency's performance had declined.

Overall, DMAS's five measures generally address important program objectives. For example, DMAS set a goal of having 85 percent of Medicaid children fully immunized by age two (Figure 16). Performance in this area consistently progressed from a base of 57 percent in 1996 up to 81 percent in 1999. Data have not been reported yet for FYs 2000 and 2001, however, and will not be available until the end of calendar years 2001 and 2002 respectively. This raises the question of whether progress is still being made in attaining the goal. That the measure is still available on the system, even though data are not current, gives policy makers the opportunity to follow-up on the department's performance in this important area.

Another DMAS measure illustrates how agency progress in meeting a State objective can be attained. The use of health maintenance organizations

Exhibit 7

PERFORMANCE MEASURE INFORMATION

Department of Medical Assistance Services (602)

Virginia Results Home | Performance Info: Statewide | Performance Info: Agency 602

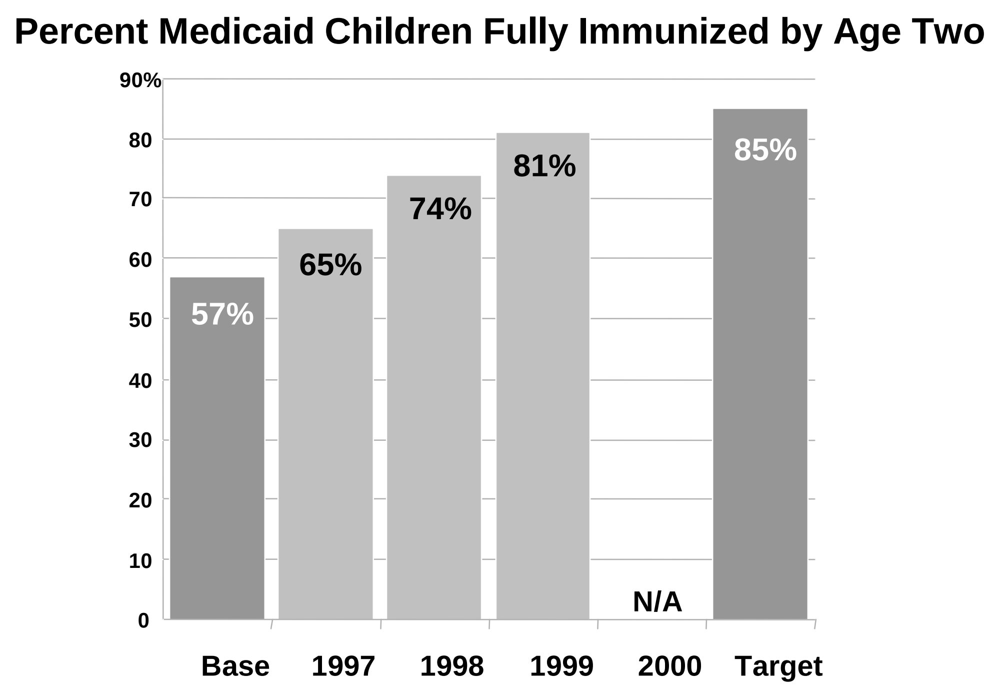
Click on the number of the performance measure to obtain more information

Number	Current Text
60201	Cost per eligible client in all Medicaid programs (in dollars)
60202	Number of children enrolled in the Children's Health Insurance Program (in thousands)
60204	Number of localities in which Medicaid HMOs operate
60205	Percentage of Medicaid children who are fully immunized by the age of two in accordance with the American Academy of Pediatrics immunization schedule
60206	Percentage of pregnant Medicaid recipients who receive prenatal care that meets accepted standards

Source: *Virginia Results* web site.

(HMOs) has been encouraged because it is thought that HMOs can help reduce service costs. DMAS's 2000 goal for the number of localities in which Medicaid HMOs operate was 46. In both 1999 and 2000, this target was met. In 2001, HMOs in 55 localities contracted with DMAS, exceeding the department's target of 46. As a result, DMAS has raised its target to 60 for 2001. This may be an attainable target, but still requires DMAS to improve its performance. DMAS's use of performance measures also illustrates a problem with the current State system of performance management, which gives agencies control over which performance measures they chose to report. Under this system, when an

Figure 16



Source: Department of Planning and Budget.

agency fails to meet a target, it can simply eliminate the measure from the system, as illustrated by DMAS's deletion of a measure this year.

> *In the summer of 2000, DMAS's published target for the number of dental providers in the Virginia Medicaid program was 960. The department had exceeded this goal in 1999 (964 providers) and almost met the goal in 2000 (940 providers). When contacted by JLARC in the summer of 2001, DMAS staff indicated that the actual number of dental providers as of August 1, 2001 was 679, far short of its goal and previous performance.*
>
> *DMAS staff explained that the department had changed to a program of "indefinite agreement" with providers, linking providers' Medicaid renewal to their license renewal. The effect of this, according to DMAS staff, was that many dentists decided not to enroll. DMAS staff maintained that a majority of these dentists were not active participants in the program and that the reduction had not affected access, especially in urban areas. In rural areas problems with access were acknowledged.*

DMAS no longer lists the number of dental providers in the Virginia Medicaid program as a performance measure on Virginia Results. There is no evidence on the site that the measure ever existed.

A problem with Virginia's current performance measurement system is that an agency has full control over the performance measurement information that it provides to DPB. Under the old paper system, most agencies provided performance measures not only to DPB, but also to their cabinet secretaries. Theoretically, the Secretary could affect an agency's choice of measures and targets. Under the current system, agencies failing to achieve performance targets can simply remove or replace the measure without any notice or prior approval. This practice can potentially hide poor agency performance or unannounced changes in targets or priorities.

For a performance measurement system to achieve meaningful goals, it must do more than report agency successes and other good news. Over the next year, JLARC staff will track agency achievement of performance targets and report on those that are not achieved or no longer reported.

Conclusions and Recommendations

DPB has been careful not to overwhelm agencies by asking them to measure everything they do. Each agency has been required to submit between three and five overall performance measures (at least one of which must be an outcome measure). This approach is consistent with earlier JLARC recommendations that DPB "include a limited number of performance measures or benchmarks for each agency in the executive budget document." Virginia's system has been in effect statewide since 1995, however, and should be moving out of its developmental stage.

Agencies should be expected to submit a more comprehensive set of measures than were required in the system's developmental phase. In addition, measures themselves should be carefully scrutinized to see if they accurately measure significant agency activities. The better measures submitted by agencies to *Virginia Results* already reflect careful development. Such measures usually include the following characteristics:

- They relate to statutory mandates or priorities of the administration.
- They relate to a core mission.
- They indicate a desired direction of change (more or less of something).
- The measures do not create unintended incentives for agency managers, e.g. processing more permits, but processing them less thoroughly.
- The measures focus on outcomes within an agency's control.
- They have conditions and terms that are well-defined and measurable.
- They utilize data which are reasonably available.
- Targets should be challenging, but attainable.

JLARC staff will be evaluating agency measures using such criteria during the course of its State spending studies over the next several years. Staff will provide the Commission with data on agency attainment of performance targets and will communicate to agencies any Commission recommendations on measures and their content or attainment. Staff will develop recommendations on how measures can be improved and made more useful for program improvement and decision making.

Overall, the performance management system developed by DPB is an innovative approach to capturing performance measurement and program evaluation information. However, the system does not yet meaningfully integrate this information into agency management or a system of performance budgeting. The incremental process followed by DPB in developing a system of performance measurement has resulted in a comprehensive infrastructure for capturing and displaying performance management information. Greater involvement and commitment by agency managers and high-level decision makers is needed to make the system a more effective management and budgeting tool.

JLARC's preliminary review of profiled agencies' performance measures in *Virginia Results* indicates that measures appear to reflect reasonable agency objectives, but do not address some significant agency missions. In some cases targets need to be reviewed to encourage agency improvement or better reflect current levels of attainment. In addition, agencies should not be allowed to simply delete measures for which performance has declined. Personnel working with programs represented by performance measures are not always aware of them. This raises questions about the role that measures may really play in focusing agency performance. Consideration should be given to developing performance measures that relate to new initiatives or mandates, including the designation of measures and targets in areas of interest to the General Assembly.

Recommendation (1). **The Governor and the Department of Planning and Budget should encourage agencies that consistently attain or exceed their performance targets to periodically set higher targets.**

Recommendation (2). **Agencies should provide a period of notice prior to removing performance measures from *Virginia Results.***

Recommendation (3). **The General Assembly may wish to identify agency performance objectives and targets that reflect legislative priorities. JLARC can monitor agency efforts to set and achieve such objectives.**

Recommendation (4). **The General Assembly may wish to identify other quality of life indicators that should be monitored by DPB. Data supporting such indicators should periodically be reviewed by the Auditor of Public Accounts to ensure that the data are accurate and reliable.**

V. Expenditure Growth Within Agencies

The two mandates for this review, HJR 773 and HB 2865, direct JLARC to identify and explain causes for Virginia's expenditure growth, and require an analysis of the programs with the greatest impact on State spending between FY 1981 and FY 2000. The study mandates also require JLARC to identify the agencies and programs receiving the most funding during that 20-year period, and those that exhibited the most growth during that timeframe. Several of these programs are described in agency profiles provided in this chapter.

ABOUT THE AGENCY PROFILES

The agency profiles provide supplementary information to previous chapters, and serve two major purposes. First, the profiles explain budget changes with an agency-specific approach. Major changes in the appropriation history of each agency are highlighted and described. The profiles also answer specific questions about State spending by providing information about issues that have driven growth within the agencies and programs.

JLARC staff developed these agency profiles for the nine of the ten agencies receiving the most funding in FY 2000. The ten largest agencies (in terms of total appropriations) accounted for $14.7 billion, or 68 percent of the total FY 2000 appropriation. These agencies are shown in Table 17. A profile was not developed for the Department of Education because DOE did not provide information for this review in response to a JLARC staff request.

Table 17

Ten Largest Agencies
Ranked by FY 2000 Legislative Appropriations

Rank	Agency	Appropriation
1	Department of Education	$ 4,246,558,378
2	Department of Medical Assistance Services	$ 2,862,592,793
3	Virginia Department of Transportation	$ 2,400,872,347
4	Department of Social Services	$ 1,121,697,093
5	University of Virginia	$ 1,082,734,334
6	Department of Corrections	$ 719,261,617
7	Department of Mental Health, Mental Retardation, and Substance Abuse Services	$ 713,484,081
8	Virginia Polytechnic Institute and State University	$ 591,608,042
9	Virginia Commonwealth University	$ 500,588,976
10	Compensation Board	$ 457,190,260

Source: Chapter 1072, 2000 Reconvened Session.

However, information about DOE's budget may be found in the recent JLARC report, *Review of Elementary and Secondary School Funding*. The profile will be included in a future report.

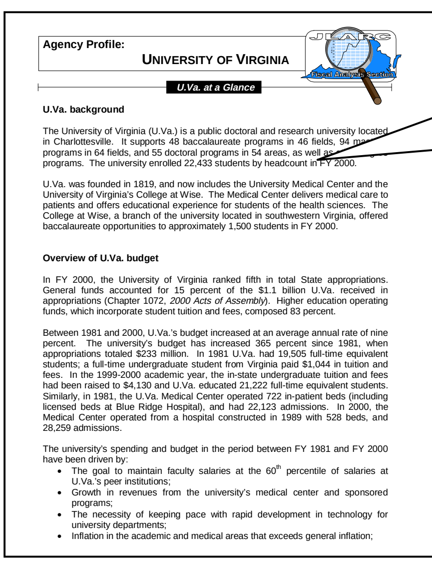
Data for these profiles was collected from a variety of sources. Staff from each agency provided information through interviews with JLARC staff and completion of a data development instrument developed by JLARC staff (Appendix F). Many agencies also provided supplementary information such as annual reports or budget plans. Information was also gathered from the Department of Planning and Budget (DPB), the Auditor of Public Accounts, the

State Council of Higher Education for Virginia, and the *Virginia Results* website maintained by DPB.

The agency profiles provide information about the organization and interpret changes in the agency budget between FY 1981 and FY 2000. Program history and organization is presented to acquaint the reader with the agency. Influences upon and key changes to the agency budget over the study period are addressed, as are fiscal issues the agency may encounter in the future. The profile also reports the criteria used by the State to assess agency performance.

JLARC staff will present additional agency profiles in future reports. The agencies depicted in this chapter may also be presented in more in-depth profiles at a later date.

THE ANATOMY OF THE AGENCY PROFILES



Agency Profile:
UNIVERSITY OF VIRGINIA

U.Va. at a Glance

U.Va. background

The University of Virginia (U.Va.) is a public doctoral and research university located in Charlottesville. It supports 48 baccalaureate programs in 46 fields, 94 ma[illegible] programs in 64 fields, and 55 doctoral programs in 54 areas, as well as [illegible] programs. The university enrolled 22,433 students by headcount in FY 2000.

U.Va. was founded in 1819, and now includes the University Medical Center and the University of Virginia's College at Wise. The Medical Center delivers medical care to patients and offers educational experience for students of the health sciences. The College at Wise, a branch of the university located in southwestern Virginia, offered baccalaureate opportunities to approximately 1,500 students in FY 2000.

Overview of U.Va. budget

In FY 2000, the University of Virginia ranked fifth in total State appropriations. General funds accounted for 15 percent of the $1.1 billion U.Va. received in appropriations (Chapter 1072, *2000 Acts of Assembly*). Higher education operating funds, which incorporate student tuition and fees, composed 83 percent.

Between 1981 and 2000, U.Va.'s budget increased at an average annual rate of nine percent. The university's budget has increased 365 percent since 1981, when appropriations totaled $233 million. In 1981 U.Va. had 19,505 full-time equivalent students; a full-time undergraduate student from Virginia paid $1,044 in tuition and fees. In the 1999-2000 academic year, the in-state undergraduate tuition and fees had been raised to $4,130 and U.Va. educated 21,222 full-time equivalent students. Similarly, in 1981, the U.Va. Medical Center operated 722 in-patient beds (including licensed beds at Blue Ridge Hospital), and had 22,123 admissions. In 2000, the Medical Center operated from a hospital constructed in 1989 with 528 beds, and 28,259 admissions.

The university's spending and budget in the period between FY 1981 and FY 2000 have been driven by:

- The goal to maintain faculty salaries at the 60th percentile of salaries at U.Va.'s peer institutions;
- Growth in revenues from the university's medical center and sponsored programs;
- The necessity of keeping pace with rapid development in technology for university departments;
- Inflation in the academic and medical areas that exceeds general inflation;

Agency at a Glance provides an overview of the agency history, mission and structure. Also in this section is a summary of agency budget growth rates, funding sources, and budget drivers over the study period.

Historical Comparison: U.Va. in FY 1981 and FY 2000

Characteristic	FY 1981	FY 2000	Change
General funds (% of agency budget)*	35%	15%	-57%
Total funding for sponsored research and programs	$45.3 million	$209 million	
National rank in research and development expenditures	75	57 (FY 1999)	Improved ranking
Tuition and fees (in-state, undergraduate)	$1,044	$4,130	+296%
Endowment	$180 million	$1,769 million	+884%
Number of full-time equivalent students	19,605	21,222	+8%
Medical Center admissions	22,123	28,259	+28%
Medical Center outpatient visits	94,323 (FY 1982)	485,808	+415%

Dollars shown are nominal (not adjusted for inflation).
Sources: U.Va. and the National Science Foundation.
* Amounts from initial appropriation act of each fiscal year.

U.Va. Budget Trends

Like other State-supported institutions of higher education, U.Va.'s budget growth has been driven by increases in non-general funds such as tuition, fees, and sponsored research and programs, and hospital revenues. Changes in State funding policy had a marked effect on U.Va.'s budget. For example, State general funds increased as a share of U.Va.'s budget during the 1980s and then decreased in the early 1990s as a result of the State's response to economic difficulties. Overall, general funds have declined as a portion of the university's budget. By the close of the 1990s, general fund appropriations to U.Va. represented 15 percent of the institution's overall budget.

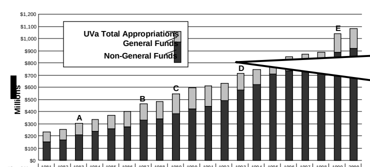
Tuition and fees increased (as did State-sponsored financial aid) in the early 1990s to help offset reductions in general funds to the University. A tuition freeze for in-state students was adopted by the General Assembly in FY 1995, and continued in effect through FY 2000. The 1999 General Assembly enacted a 20 percent tuition rollback effective FY 2000. During this period the State also adopted a tuition policy requiring all out-of-state students to pay at least 100 percent of their cost of education.

Growth in appropriations has provided U.Va. the ability to pay competitive faculty salaries, to improve its technological resources, and to support research and other educational activities.

Historical Comparison: FY 1981 - FY 2000 includes a table illustrating some changes in the agency budget and budget drivers over the twenty year period.

Budget Trends provides a synopsis of key changes in the agency's budget over the 20-year period from FY 1981 through FY 2000.

U.Va. Appropriations History



Fiscal Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Funds	233	254	304	336	368	399	468	482	546	592	609	631	713	747	823	847	870	888	1,036	1,083
% Change		9.1	19.7	10.5	9.6	8.4	17.0	3.2	13.2	8.5	2.8	3.7	12.9	4.8	10.2	2.9	2.7	2.2	16.6	4.5

Appropriation amounts shown in chart are from the final Appropriation Act for each fiscal year.

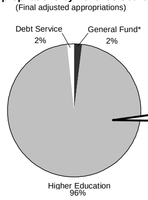
	Fiscal Year	Important Changes in U.Va. Appropriations Since FY 1981*
A.	1983	A 20 percent increase in total funds reflected a 30 percent increase in medical center patient revenues and a 19 percent rise in higher education operating funds from increased tuition and fees.
B.	1987	A 29 percent increase in higher education operating funds for the academic departments and the College at Wise caused a 17 percent increase in total funds.
C.	1989	Higher medical center patient revenues and increased tuition and fees pushed university appropriations up 13 percent. Faculty salaries increased six percent and classified staff salaries increased eight percent. Also, $2.2 million in general fund appropriations were distributed to match endowment earnings under the eminent scholars program.
D.	1993	U.Va. tuition and fees increased 13 percent in FY 1992 and again by 16 percent in FY 1993 to make up for the loss in general funds.
E.	1999	Higher education operating funds increased 17 percent, reflecting a 31 percent increase in operation funds for the medical center.

* Includes changes of 12 percent or more.

Appropriations History visually presents agency general and non-general fund appropriations. A table below the chart offers explanations of the largest proportionate changes in agency funding over the study period.

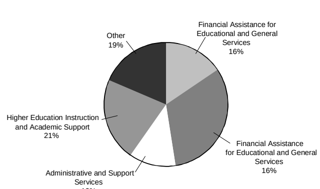
U.Va. Fiscal Year 2000 Financial Information

Total Appropriations = $1,121.5 million
Appropriations by Revenue Source
(Final adjusted appropriations)



* After the beginning of the budget year, most general funds are transferred to higher education operating funds for expenditure.

Total Expenditures = $1,147.9 million
Expenditures by Budget Program



Fiscal Year 2000 Financial Information provides pie charts showing final adjusted appropriations for the year by revenue source and agency expenditures by budget program.

U.Va. Programs

The University of Virginia includes these colleges:

- the College of Arts and Sciences,
- the Graduate School of Arts and Sciences,
- the School of Law,
- the School of Medicine,
- School of Architecture,
- School of Engineering and Applied Science,
- Curry School of Education,
- McIntire School of Commerce,
- Darden Graduate School of Business Administration,
- School of Nursing, and
- School of Continuing and Professional Studies.

U.Va. supports a variety of research as a complement to the university's academic programs. The research centers are in the disciplines of electronics, health, humanities, sciences, and social sciences, and are accompanied by university-wide centers. Examples of these centers are:

- The Center for the Liberal Arts,
- The Cooper Center for Public Service,
- The Diabetes Center,
- The Virginia Health Policy Center,
- The Virginia Foundation for the Humanities, and
- The Virginia Institute of Government.

The University of Virginia is described by Title 23, Chapter 9 of the *Code of Virginia*.

University of Virginia Contact Information

Charlottesville, Virginia

434-924-0311 (voice and TDD)

www.virginia.edu

Agency Programs discusses agency organization and services, and cites the statute authorizing the work of the agency. This section is also a resource for agency contact information.

U.Va. Performance Measures

Selected *Virginia Results* Performance Measures (as of September 2001)*

Measure	*Baseline*	*1998*	*1999*	*2000*	*Target*
Graduation rate (%)	91.5	92.0	91.0	91.3	91.0
Progression rate (%)	80.0	87.2	87.6	86.7	83.5
Retention rate (%)	16.5	9.2	9.0	10.0	14.0
Persistence rate (%)	96.6	96.5	[illegible]		
Number of transfer students	194.0	173.0	168.0	125.0	175.0
Graduates employed in program-related work (%)	37.0	-	64.0	64.0	37.0
Graduates pursuing further study (%)	31.6	-	33.9	33.9	32.0
Instruction as percent of Educational and General funds	63.4	62.0	63.2	61.6	62.0
Management Standards met (%)	100.0	100.0	100.0	100.0	100.0
Classroom utilization (%)	51.7	58.4	-	58.4	57.0
Total credit hours per full-time equivalent faculty	196.0	195.8	191.0	190.2	193.0
Research and public service expenditures per full-time faculty (thousands of dollars)	99.3	112.2	115.5	114.9	103.0

Higher education performance measure terms are defined in the glossary in Appendix E.

*See the Department of Planning and Budget's *Virginia Results* website for additional measures.

Performance measures for all higher education institutions (including U.Va.) are developed and coordinated by the State Council of Higher Education for Virginia (SCHEV). SCHEV collects and monitors this information and includes it in the *Reports of Institutional Effectiveness* (*ROIE*) for each institution. Results are posted on the SCHEV website, www.schev.edu/schevhome.html. Information on mission, profile measures, system-wide measures, and institution-specific measures are accessible.

Separate measures have been developed for U.Va., the Medical Center, and the University of Virginia's College at Wise.

Agency Performance Measures as presented in the *Virginia Results* website maintained by DPB are provided for FY 1998 through FY 2000.

Agency Profile:

DEPARTMENT OF MEDICAL ASSISTANCE SERVICES

DMAS at a Glance

DMAS background

The Department of Medical Assistance Services (DMAS) administers Virginia's Medicaid program. DMAS was created in 1985 from the medical assistance services program in the Department of Health. The agency administers the State's Medicaid plan, certifies provider eligibility, and provides for payment to Medicaid providers for services rendered to individuals eligible for Medicaid.

The Medicaid program provides for medical care for certain categories of eligible people, including low-income children and adults, pregnant women, and aged, blind and disabled individuals.

Overview of DMAS budget

The DMAS appropriation of $2,863 million in FY 2000 was the second largest item in Chapter 1072 (*2000 Acts of Assembly*). In that budget, State general funds accounted for 48 percent of the total appropriation. Federal funds contributed 51 percent. The ratio of State to federal funds has varied somewhat over the last 20 years.

Growth in the Medicaid program was rapid between FY 1981 and FY 2000, and represented the largest increase in the budget during that period. Total appropriations grew 616 percent between FY 1981 and FY 2000 (266 percent adjusted for overall inflation), an 11 percent nominal average annual increase. General funds grew by 628 percent over the period, (12 percent annually). Inflation-adjusted general fund appropriations grew 273 percent. Federal trust funds grew 597 percent (11 percent annually). Inflation-adjusted federal funds grew 256 percent.

The key items driving Medicaid spending since 1981 have been increases in overall medical inflation (which exceeded general inflation as measured by the CPI) and increases in the Medicaid eligible population. The major growth areas were nursing home payments, pharmacy services (driven by higher drug prices and increases in prescriptions), mental health services, implementation of managed care, and "general" Medicaid spending which includes a number of categories such as transportation, medical appliances, and dental services.

Spending on categories of acute care services such as physicians, and hospitals has decreased or grown more slowly since the introduction of managed care in the mid-1990s.

Historical Comparison: DMAS in FY 1981 and FY 2000

Characteristic	FY 1981	FY 2000	Change
Medicaid Eligible Individuals by Aged, Blind and Disabled Status	89,008	224,313	152%
Medicaid Eligible Individuals by AFDC-Related Status	199,246	449,814	126%
Total Medicaid Program Expenditures	$441 Million	$2,766 Million	527%
	FY 1985*	**FY 2000**	**Change**
Nursing Facility Recipients (Unduplicated)	20,788	26,785	29%
Total Nursing Facilities Expenditures	$190 Million	$438 Million	131%
Number of Prescriptions	3.70 Million	8.49 Million	129%
Total Pharmacy Expenditures	$41.5 Million	$373.9 Million	801%
Inpatient Hospital Recipients (Unduplicated)	55,023	89,123	62%
Total Inpatient Hospital Expenditures	$94 Million	$524 Million	457%
* Data available only since the creation of DMAS in 1985. Dollars shown are nominal (not adjusted for inflation).			

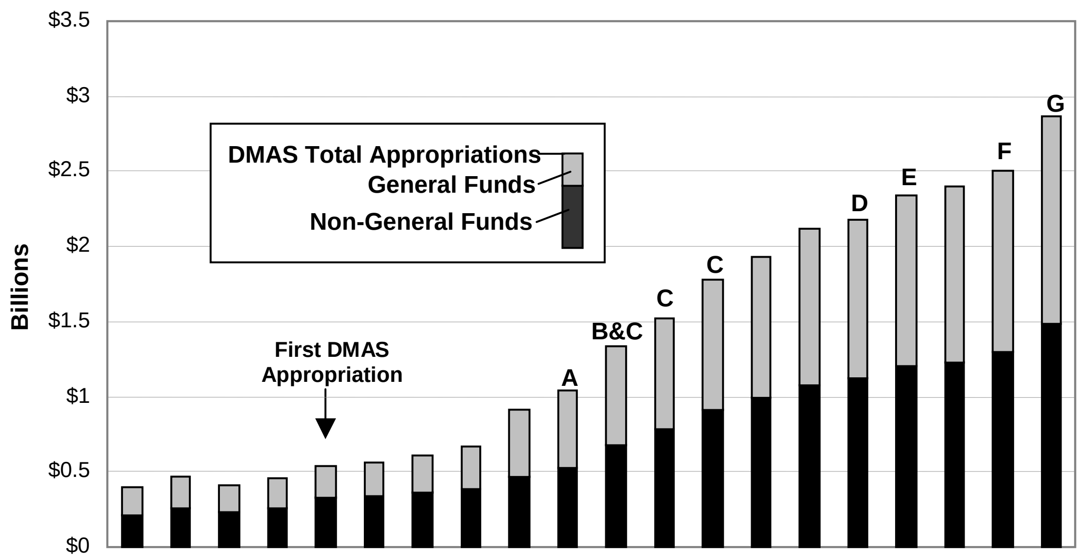
DMAS Budget Trends

DMAS budget growth since FY 1981 was driven by increases in the number of individuals eligible for Medicaid and by increases in the utilization and costs of those services. Medicaid eligible individuals have more than doubled over the last twenty years. At the same time, utilization of services by these individuals has also increased with three broad patterns of utilization and spending highlighted in the historical comparisons above.

Nursing facility utilization grew more slowly than total nursing home spending, indicating increasing costs per recipient in an expensive service type. Prescription drug utilization has grown at a comparable rate to the Medicaid population, yet spending on prescriptions have grown far faster – five times faster.

Utilization of acute care services, represented above by inpatient hospital services, peaked around 1995 and has fallen since then. Inpatient, outpatient, and physician utilization have all fallen steadily since FY 1995. Spending on acute care services fell after FY 1995, but less than utilization. Introduction of managed care was the primary reason for slowdowns in acute care use and spending.

DMAS Appropriations History



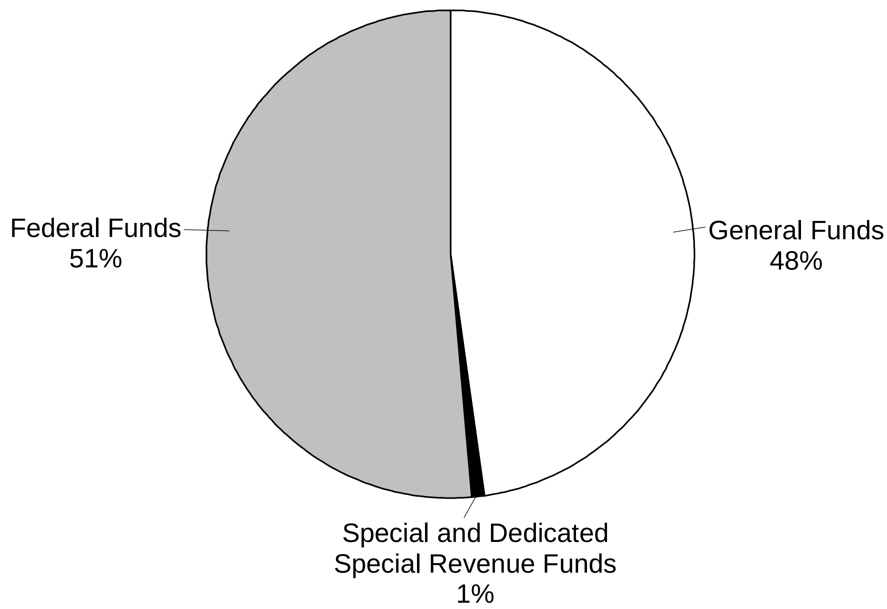
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Funds	0.40	0.47	0.41	0.46	0.53	0.57	0.61	0.67	0.91	1.05	1.33	1.52	1.78	1.93	2.12	2.18	2.34	2.40	2.51	2.86
% Change		17.5	-12.2	10.5	17.0	6.1	8.3	9.7	35.2	15.3	26.9	14.6	17.2	8.4	9.5	2.9	7.2	2.6	4.6	14.1

Appropriation amounts shown in chart are from the final Appropriation Act for each fiscal year.

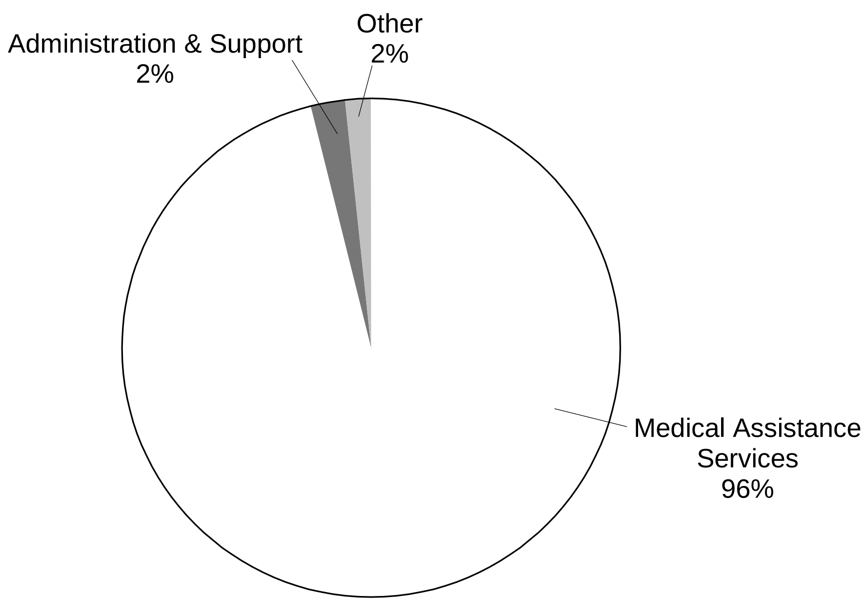
	Fiscal Year	Important Changes in DMAS Appropriations Since FY 1981
A.	1990	Expanded eligibility by covering pregnant women at higher percent of the poverty rate, a recession drove increases in Aid to Families with Dependent Children-related enrollment, and rapid health care costs combined to increase appropriations by $139 million.
B.	1991	Rapid nation-wide health care cost increases, increases in inpatient hospital expenditures, and expanded coverage for pregnant women resulted in $282 million dollar increase.
C.	1991-1993	Large increases in inpatient hospital payments (including the beginning of disproportionate share hospital payments), averaging $47 million per year. Physician payment increases average $38 million annually.
D.	1996	Managed care expansion (Options) costs $130 million, offset by $94 million decrease in hospital and physician payments.
E.	1997	Managed care increases (Medallion II) and total managed care expenditures increase $46 million.
F.	1999	$40 million increase for prescription drugs.
G.	2000	Managed care, up $104 million, and nursing home rate increase of $47 million. MHMR community waver increases by $43 million, and inpatient and pharmacy spending increase by $35 million each.

DMAS Fiscal Year 2000 Financial Information

Total Appropriations = $2,882 million
Appropriations by Revenue Source
(Final adjusted appropriations)



Total Expenditures = $2,844 million
Expenditures by Budget Program



DMAS Programs

The DMAS budget structure in the Appropriation Act is relatively simple. Most funding is appropriated under a single Medical Assistance Services budget program. To observe detailed funding changes this review focuses on the types of services provided in the broad Medicaid program. Medicaid services consist of general Medicaid services and mental health, mental retardation and mental illness services. Expenditure data at this level is available only from FY 1985. The following discussion addresses that abbreviated time period.

General Medicaid services include inpatient and outpatient hospital, nursing home and other long-term care services, prescription drugs, physicians services, Medicare premiums, and other general services (transportation, medical appliances, dental services, etc). The various mental health and mental retardation services include services rendered in facilities such as hospitals, as well as community or home-based services. All these services are delivered by certified Medicaid providers. Medicaid pays the bills on behalf of the eligible individuals receiving the services.

The relative importance of each of these categories in terms of Medicaid spending growth has changed over time. For instance, between FY 1985 and FY 1990 total Medicaid spending increased $417 million. Of this increase, three areas accounted for the majority: inpatient hospital (29 percent), nursing homes (17 percent), and MHMR facilities (12 percent). Between FY 1995 and FY 2000, the increase of $674 million was concentrated mostly in managed care (46 percent of the total increase), mental health and mental retardation community based services (20 percent), and prescription drugs (18 percent). These changes reflect changes in medical technology and cost control efforts over the last 15 years.

Medicaid serves two large groups based on eligibility criteria. Not all eligible individuals receive benefits during a given period. First, there are individuals that fall into the aged, blind and disabled categories. This group is characterized by very high service costs. This group has grown from approximately 110,000 such individuals in 1985 to 224,000 in FY 2000. The other major category of eligible individuals are referred to as AFDC-related. Most of these individuals meet Medicaid eligibility requirements by virtue of their status as either low-income individuals, parents of low–income children, or pregnant women. Members of this group are generally less expensive to serve. This category grew from 249,000 in 1985 to 450,000 in 2000.

JLARC staff will release an interim report: Review of the Virginia Medicaid Program in December covering the children's health, pharmacy, mental retardation waiver and transportation programs.

The work of DMAS is carried out under numerous sections of the *Code of Virginia*, including §§ 32.1-325, 32.1-321.1, 32.1-323, 32.1-333, 32.1-351, among others.

DMAS Performance Measures

Virginia Results Performance Measures (as of November 2001)

Measure	*Baseline*	*1998*	*1999*	*2000*	*2001*	*Target*
Percentage of Medicaid children who are fully immunized by age two in accordance with the American Academy of Pediatrics immunization schedule.	57%	74%	81%	NA	NA	85%
Cost per eligible client in all Medicaid programs.	$3,686	$4,423	$4,794	$5,325	$6,056	$6,600
Number of localities in which Medicaid HMOs operate.	39	28	46	46	55	60
Percentage of pregnant Medicaid recipients who receive prenatal care that meets accepted standards.	59%	59%	73%	NA	NA	70%
Number of dental providers in the Virginia Medicaid program.*	802	NA	964	940	NA	960
Number of children enrolled in the Children's Health Insurance Program.	12,000	NA	NA	24,000	32,300	48,000
* DMAS no longer maintains this performance measure. See Chapter IV of this report for more information. NA = Data not available on Virginia Results.						

DMAS appears to have made progress on some of these measures including immunization of children, managed care expansion, and prenatal care. In the case of average costs, more detailed figures may be more meaningful than an average total cost per eligible client. In addition, it might be informative to see measures that reflect the impact of utilization management practices and other interventions that can reduce costs. The department should revise the child health insurance enrollment target to reflect the levels set in the State Medicaid Plan, which is 63,200. The number of providers in the dental service performance subsequently declined from the numbers shown above. Chapter four of this report contains additional information on DMAS performance measures.

DMAS Contact Information
600 East Broad Street
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Phone: 804-786-4231

http://www.cns.state.va.us/dmas

Agency Profile:
VIRGINIA DEPARTMENT OF TRANSPORTATION

VDOT at a Glance

VDOT background

The Virginia Department of Transportation (VDOT) builds, maintains, and operates Virginia's roads, bridges, and tunnels. The department oversees four tunnel systems, almost 12,000 bridges, and 65,000 miles of roads. Virginia's highway system is the third largest state-maintained system in the United States.

Virginia's investment in transportation management has grown since it first established the State Highway Commission in 1906. Now, VDOT has almost 10,000 employees who design, manage, and maintain transportation facilities across the State. The work of the agency is guided by the Commonwealth Transportation Board.

Overview of VDOT budget

VDOT received $2.4 billion in appropriations in fiscal year 2000 (Chapter 1072, *2000 Acts of Assembly*), making it the third highest funded State agency for that year. Money from Commonwealth transportation funds accounted for 96 percent of those appropriations.

Between FY 1981 and FY 2000 funding for VDOT increased 147 percent; the average annual increase was five percent. Funding for VDOT programs comes from many sources, including federal funds, gasoline taxes, vehicle title fees, license tag fees, the general sales tax, bond sales, and the Virginia Transportation Act of 2000.

Between FY 1981 and FY 2000 the VDOT budget was influenced by changes in State and federal revenue policies that support transportation initiatives in Virginia. Examples include:

- increased sales tax and motor fuel taxes dedicated to transportation,
- increased State revenues for the department from increased motor vehicle sales and use, and
- growth in the budget due to Transportation Equity Act for the 21st Century, a federal funding plan.

Historical Comparison: VDOT in FY 1981 and FY 2000

Characteristic	FY 1981	FY 2000	Change
General funds (% of agency budget)*	0%	2%	2%
Cost of maintenance per interstate lane mile	$5,828	$26,860	361%
Cost of maintenance per primary road lane mile	$2,950	$15,305	419%
Cost of maintenance per secondary road lane mile	$1,167	$3,386	190%

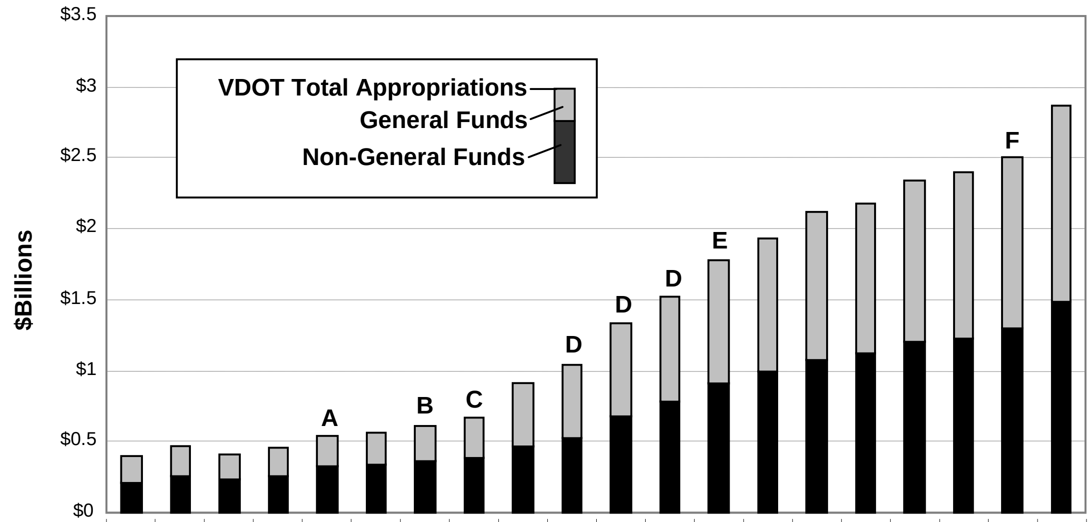
Dollars shown are nominal (not adjusted for inflation).
Source: VDOT.
* Amounts from initial appropriation act of each fiscal year.

VDOT Budget Trends

The growth in VDOT's budget between 1981 and 2000 was driven by Virginia's need for road construction and maintenance, and supported by federal funds and by fees and taxes levied on Virginia's motor vehicle use. Several State initiatives during this period substantially increased funding for transportation, although in the early 1990s some funds were transferred out of VDOT to help alleviate the State's overall budget problems. Transportation initiatives in 1986 first converted the three percent oil excise tax to a three cents per gallon motor fuel tax, plus a one cent per gallon tax was added to be deposited into the critical improvement fund beginning July 1, 1986. On January 1, 1987, an additional 2.5 cents per gallon was added to the motor fuel tax and the State sales and use tax was increased by 0.5 percent, all earmarked for transportation. Federal initiatives also provided increased funding for transportation infrastructure.

Many important road projects were completed during the 20-year period of this review. Completion of the interstate highway system in Virginia occurred during this period, as did the six-laning of I-95 from Washington, D.C. to Richmond, the construction of the Monitor-Merrimac Tunnel under Hampton Roads, the four-laning of extensive stretches of US 58 and other routes, removal of tolls on the Richmond-Petersburg Turnpike (I-95) and the Virginia Beach Expressway, and many other projects.

VDOT Appropriations History



	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Funds	0.97	0.97	0.93	0.96	1.07	1.16	1.36	1.65	1.79	1.67	1.65	1.59	1.76	1.86	1.91	1.88	1.90	2.05	2.48	2.40
% Change		-0.4	-3.7	3.0	11.4	8.0	17.8	21.3	8.5	-6.9	-1.2	-3.4	10.5	5.8	2.5	-1.6	1.0	8.1	21.1	-3.2

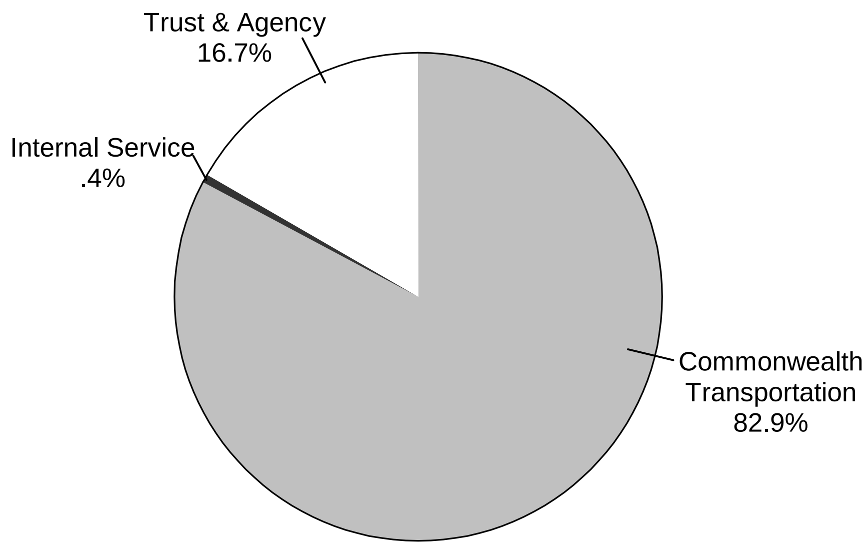
Fiscal Year

Appropriation amounts shown in chart are from the final Appropriation Act for each fiscal year.

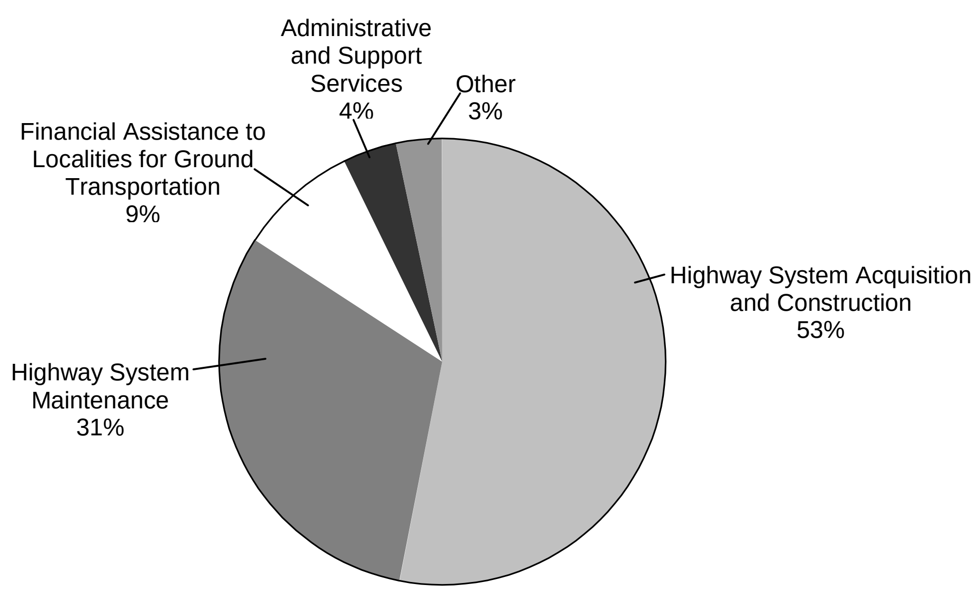
	Fiscal Year	Important Changes in VDOT Appropriations Since FY 1981
A.	1985	Appropriations increased 11 percent due to $70 million in increased State funds ($50 million of which was contributed by growth in motor vehicle sales and use revenues), and an additional $45 million in federal interstate discretionary funds.
B. C.	1987 and 1988	Taxes were increased, with the additional funds appropriated for highway construction and maintenance improvement initiatives. The General Assembly established the Commonwealth Transportation Fund and the DMV Special Fund, and added more than 1,000 staff positions to the department.
D.	1990-1992	Transportation funds totaling $88 million were transferred to the general fund in FY 1991; $106 million was transferred in FY 1992.
E.	1993	An 11 percent increase in transportation funding reflected improved revenues following the economic downturn of the early 1990s and new federal funding sources from the Intermodal Surface Transportation Efficiency Act.
F.	1999	VDOT received appropriations from the federal Transportation Equity Act for the 21st Century (TEA-21), which provided enhanced federal funding retroactive to October 1997.

VDOT Fiscal Year 2000 Financial Information

Total Appropriations = $3.027 billion
Appropriations by Revenue Source
(Final adjusted appropriations)



Total Expenditures = $2.464 billion
Expenditures by Budget Program



VDOT Programs

The Virginia Department of Transportation is organized into several programs that address transportation issues, including:

- Road and bridge construction,
- Maintenance and operations,
- Transportation planning,
- Environmental impact,
- Financial planning and debt management,
- Traffic engineering,
- Employee safety and health, and
- Intelligent transportation systems.

Geographically, VDOT is divided into nine districts across Virginia. The State is further divided into 45 residencies composed of one to four counties. Every county in Virginia has at least one VDOT area maintenance headquarters; there are more than 240 statewide.

The mission and goals of the department are guided by the Commonwealth Transportation Board, whose 17 members are chaired by the Secretary of Transportation.

The statutory authority for the work of the Department of Transportation is found in Title 33.1 of the *Code of Virginia*.

Department of Transportation Contact Information

1401 East Broad Street
Richmond, Virginia 23219

804-786-2801. For TTY, call the Virginia Relay Center: 1-800-828-1120

www.vdot.state.va.us

Virginia Results **Performance Measures (as of November 2001)**

Measure	*Baseline*	*1998*	*1999*	*2000*	*2001*	*Target*
Virginia drivers' satisfaction with VDOT core services (5 = maximum satisfaction)	3.78	NA	NA	3.78*	3.97	3.85
Percentage of construction projects completed within 10% of contracted amount	42.0	46.0	47.0	47.0	50.0	51.7
Number of injuries to VDOT employees resulting in lost time (per one million hours worked)	17.8	15.8	15.9	14.9	NA	15.5

* Trend data from an earlier version of *Virginia Results*.
NA = Data not available on *Virginia Results*.

Additional information on the above measures will be provided as part of the agency's budget development process. JLARC released reports on transportation funding and maintenance in November 2001. Measures should be modified or expanded to address issues raised in those reports. At a minimum, additional measures should be developed to address VDOT maintenance activities.

Agency Profile:

DEPARTMENT OF SOCIAL SERVICES

DSS at a Glance

DSS background

The Department of Social Services (DSS) administers a wide variety of programs. Formerly the Department of Welfare, DSS provides eligibility screening for a variety of social service programs including Temporary Assistance for Needy Families (TANF), Food Stamps, and Medicaid. The Department also administers child support enforcement, and the State's foster care and domestic abuse prevention programs. In addition, DSS sets benefit levels for programs such as TANF and Food Stamps. Changes in State and federal welfare laws and an improving economy have reduced DSS welfare-related caseloads over the late 1990s. Child support enforcement and child daycare caseloads have increase over this period.

Overview of DSS budget

In FY 2000, the DSS appropriation was $1.12 billion according to Chapter 1072 (*2000 Acts of Assembly*). This was the fourth largest appropriation for that year. The revenue for this appropriation came from three sources: general funds (23 percent), special funds (31 percent), and federal funds (46 percent). DSS special funds include child support collections, registration, training and other fees. Federal funds include TANF, food stamp, and other federal grants.

Since FY 1981, the ratio of general to federal funds has remained about one to two. General funds as a percent of total appropriations, however, fell since 1992 to 23 percent. Federal funds were 64 percent of the total from 1981 to 1985, and have been between 46 to 51 percent since then. The most notable increase came in special funds, which grew from one percent of the total in 1981 to 31 percent in 2000, mostly due to growth in child support collections and payments.

Total appropriations grew 223 percent since FY 1981, a six percent average annual growth rate. Inflation-adjusted total appropriations grew 65 percent. General funds increased 121 percent, a four percent average annual increase, and 13 percent overall in inflation-adjusted terms. Non-general funds grew by 276 percent a seven percent average annual increase, and 92 percent in inflation-adjusted terms.

Increases in DSS appropriations are mostly explained by dramatic growth in non-general fund child support enforcement collections and payments, and by general and non-general fund expenses under welfare reform such as child day care payments. Also, due to an improving economy and changes in welfare laws, AFDC/TANF payments decreased over the latter half of the 1990s.

Historical Comparison: DSS in FY 1991 and FY 2000

Characteristic	FY 1991	FY 2000	Change
Total TANF Payments (Annual)	$189 Million	$95 Million	-50%
TANF Paid Cases (Monthly)	59,488	32,871	-45%
Child Support Collections	$148 Million	$412 Million	178%
Child Support Enforcement Cases	275,000	397,000	44%
Food Stamp Total Payments	$294 Million	$266 Million	-10%
Food Stamp Recipients	383,871	339,568	-12%
Child Day Care Expenditures	$20 Million	$117 Million	485%
Child Day Care Recipients Monthly	8,215*	25,451	210%

* DSS estimate.
Dollars shown are nominal (not adjusted for inflation).

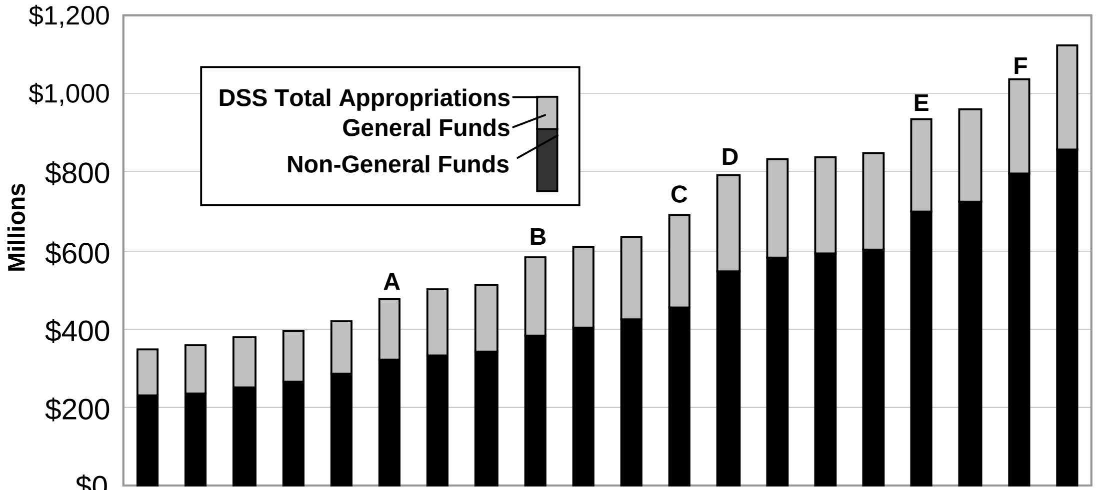
DSS Budget Trends

Budget growth in DSS, in terms of services provided, was characterized by three major factors. First, traditional welfare and similar support services provided by the agency were influenced by the business cycle and welfare reform. Both TANF cases and annual payments fell throughout the late 1990s business expansion, with payments falling faster than cases. Similarly, the food stamp program saw declining use and payments in the late 1990s, but with caseload falling slightly slower than payments. Both TANF and food stamp programs peaked in the middle 1990s.

The second factor was the dramatic growth in child support enforcement cases and payments. This is due to several federal and State changes to the program making DSS the sole agency responsible for both public assistance and non-public assistance cases (the latter cases were transferred from State courts.) The number of cases has increased more slowly than collections and payments indicating an increasing collection/payment per case.

The third factor was the cost of implementing welfare reform. For example, one of the most significant services supporting welfare recipients moving off the rolls is daycare services. This program grew over the late 1990s and spending in this program grew more than the number of recipients.

DSS Appropriations History



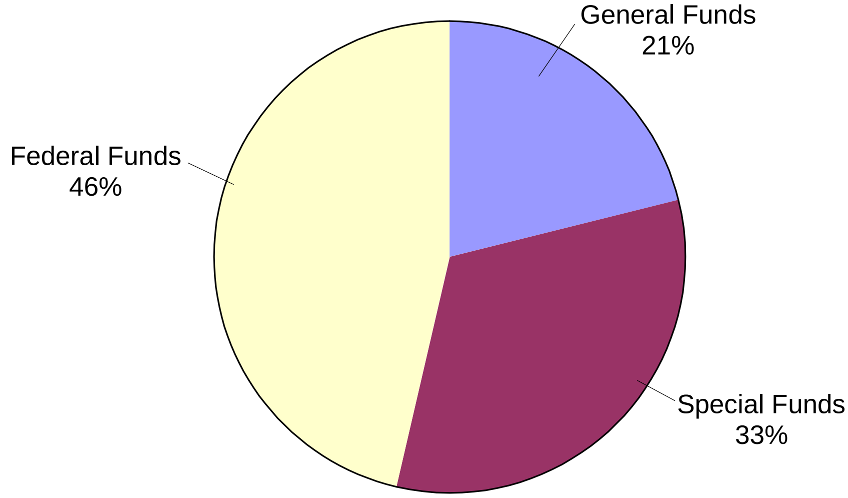
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Funds	347	359	377	395	420	474	499	508	585	605	633	690	790	832	836	846	933	958	1,036	1,122
% Change		3.4	5.0	4.7	6.6	12.7	5.3	1.9	15.0	3.6	4.5	9.0	14.5	5.3	0.5	1.3	10.2	2.7	8.1	8.3

Appropriation amounts shown in chart are from the final Appropriation Act for each fiscal year.

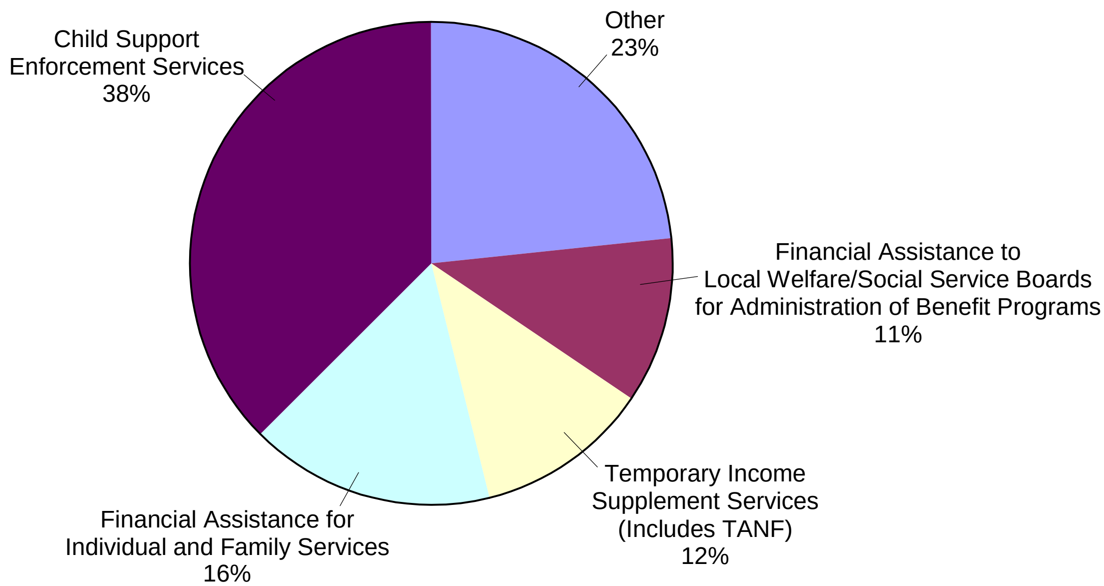
	Fiscal Year	Important Changes in DSS Appropriations Since FY 1981
A.	1986	Aid to Families with Dependent Children (AFDC) and General Relief funds increased by $24 million in addition to a $24 million increase in Child Support Enforcement collections.
B.	1989	$71 million increase in Child Support Enforcement collections.
C.	1992	$37 million increase in AFDC and General Relief due to economic recession. Foster care and child support enforcement collections increased $10 million each.
D.	1993	$55 million increase in Child Support Enforcement collections. AFDC increased $10 million, eligibility administration increase of $14 million. $18 million in foster care and adoption support and miscellaneous federal items.
E.	1997	$45 million increase in child support enforcement collections. Foster care increases of $11 million. Welfare reform increases of $16 million (including day care), and $16 million in day care block grant transfer from Child Day Care Council. Some offsetting reductions occurred in various program reductions.
F.	1999	$75 million increase in Child Support Enforcement collections.

DSS Fiscal Year 2000 Financial Information

Total Appropriations = $1,242 Million
Appropriations by Revenue Source
(Final adjusted appropriations)



Total Expenditures = $1,188 Million
Expenditures by Budget Program



DSS Programs

By far the largest program in DSS is the Child Support Enforcement Services program accounting for 35 percent of total appropriations. Most of these funds represent payments by non-custodial parents to custodial parents and their children. This program accounted for half of the growth in the DSS budget between FY 1981 and FY 2000.

The second largest DSS program is Financial Assistance for Individual and Family Services. This program includes day care services and other direct social services. A third significant program is the Temporary Income Supplement Services program, the bulk of which is the federal TANF program for low-income families. TANF payments decreased over the latter half of the 1990s as the economy improved and because of new limits to the duration of benefits.

DSS serves several distinct groups including TANF recipients, Food Stamp recipients, foster care children, victims of domestic violence and individuals applying for Medicaid services. The levels of many DSS welfare-related populations have decreased in recent years due to State and federal welfare reform, and to declining Medicaid and TANF enrollment due to an improving economy. At the same time, child support enforcement cases and child daycare recipients have increased.

The work of DSS is carried out under a variety of sections in the *Code of Virginia*, including primarily Title 63.1.

DSS Contact Information

730 East Broad Street
Richmond, VA 23219
Phone: 804-692-1900

http://:www.dss.state.va.us

DSS Performance Measures

Virginia Results Performance Measures (as of November 2001)

Measure	*Baseline*	*1998*	*1999*	*2000*	*2001*	*Target*
Percentage of children in the child support caseload born out-of-wedlock who have had paternity established.	69	69	71	80	75	76
Percentage of current child support obligated amounts collected for the entire child support enforcement caseload.	39	41	47	54	58	59
Percentage of enforceable cases (with paternity established and child support ordered) in the total child support enforcement caseload.	55	60	64	67	73	75
Percentage of food stamp dollars issued in error.	13	NA	11	9	NA	7
Percentage of VIEW participants who have been involved in work activity (subsidized or unsubsidized employment or community work experience [CWEP]) during the fiscal year.	67	71	72	72	71	70
NA = Data not available on *Virginia Results.*						

DSS has made improvements on each of its performance measures. In light of the new State TANF plan under development, DSS may wish to create new performance measures for this category of services. In addition, three of the five measures relate to the child support enforcement program. DSS should consider establishing measures for other programs that it administers.

Agency Profile:

UNIVERSITY OF VIRGINIA

UVA at a Glance

UVA background

The University of Virginia (UVA) is a public doctoral and research university located in Charlottesville. It supports 48 baccalaureate programs in 46 fields, 94 master's programs in 64 fields, and 55 doctoral programs in 54 areas, as well as other degree programs. The university enrolled 22,433 students by headcount in FY 2000.

UVA was founded in 1819, and now includes the University Medical Center and the University of Virginia's College at Wise. The Medical Center delivers medical care to patients and offers educational experience for students of the health sciences. The College at Wise, a branch of the university located in southwestern Virginia, offered baccalaureate opportunities to approximately 1,500 students in FY 2000.

Overview of UVA budget

In FY 2000, the University of Virginia ranked fifth in total State appropriations. General funds accounted for 15 percent of the $1.1 billion UVA received in appropriations (Chapter 1072, *2000 Acts of Assembly*). Higher education operating funds, which incorporate student tuition and fees, composed 83 percent.

Between 1981 and 2000, UVA's budget increased at an average annual rate of nine percent. The university's budget has increased 365 percent since 1981, when appropriations totaled $233 million. In 1981 UVA had 19,505 full-time equivalent students; a full-time undergraduate student from Virginia paid $1,044 in tuition and fees. In the 1999-2000 academic year, the in-state undergraduate tuition and fees had been raised to $4,130 and UVA educated 21,222 full-time equivalent students. Similarly, in 1981, the UVA Medical Center operated 722 in-patient beds (including licensed beds at Blue Ridge Hospital), and had 22,123 admissions. In 2000, the Medical Center operated from a hospital constructed in 1989 with 528 beds, and 28,259 admissions.

The university's spending and budget in the period between FY 1981 and FY 2000 have been driven by:

- The goal to maintain faculty salaries at the 60th percentile of salaries at UVA's peer institutions;
- Growth in revenues from the university's medical center and sponsored programs;
- The necessity of keeping pace with rapid development in technology for university departments;
- Inflation in the academic and medical areas that exceeds general inflation;
- Changed State policy that requires out-of-state students to pay 100 percent of the cost of their education rather than 75 percent; and
- Enrollment growth of almost nine percent.

Historical Comparison: UVA in FY 1981 and FY 2000

Characteristic	FY 1981	FY 2000	Change
General funds (% of agency budget)*	35%	15%	-57%
Total funding for sponsored research and programs	$45.3 million	$209 million	+361%
National rank in research and development expenditures	75	57 (FY 1999)	Improved ranking
Tuition and fees (in-state, undergraduate)	$1,044	$4,130	+296%
Endowment	$180 million	$1,769 million	+884%
Number of full-time equivalent students	19,605	21,222	+8%
Medical Center admissions	22,123	28,259	+28%
Medical Center outpatient visits	94,323 (FY 1982)	485,808	+415%

Dollars shown are nominal (not adjusted for inflation).
Sources: UVA and the National Science Foundation.
* Amounts from initial appropriation act of each fiscal year.

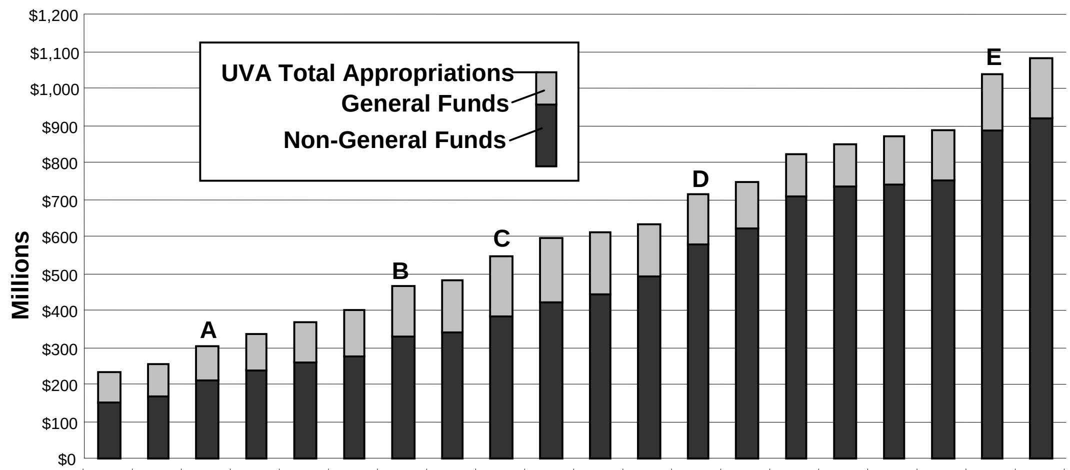
UVA Budget Trends

Like other State-supported institutions of higher education, UVA's budget growth has been driven by increases in non-general funds such as tuition, fees, and sponsored research and programs, and hospital revenues. Changes in State funding policy had a marked effect on UVA's budget. For example, State general funds increased as a share of UVA's budget during the 1980s and then decreased in the early 1990s as a result of the State's response to economic difficulties. Overall, general funds have declined as a portion of the university's budget. By the close of the 1990s, general fund appropriations to UVA. represented 15 percent of the institution's overall budget.

Tuition and fees increased (as did State-sponsored financial aid) in the early 1990s to help offset reductions in general funds to the University. A tuition freeze for in-state students was adopted by the General Assembly in FY 1995, and continued in effect through FY 2000. The 1999 General Assembly enacted a 20 percent tuition rollback effective FY 2000. During this period the State also adopted a tuition policy requiring all out-of-state students to pay at least 100 percent of their cost of education.

Growth in appropriations has provided UVA. the ability to pay competitive faculty salaries, to improve its technological resources, and to support research and other educational activities.

UVA Appropriations History



Fiscal Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Funds	233	254	304	336	368	399	468	482	546	592	609	631	713	747	823	847	870	888	1,036	1,083
% Change		9.1	19.7	10.5	9.6	8.4	17.0	3.2	13.2	8.5	2.8	3.7	12.9	4.8	10.2	2.9	2.7	2.2	16.6	4.5

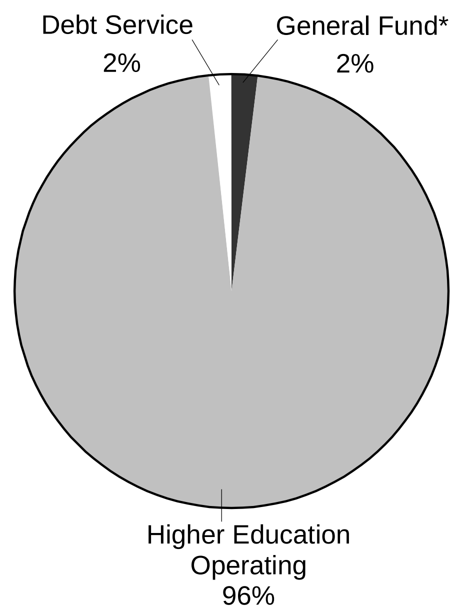
Appropriation amounts shown in chart are from the final Appropriation Act for each fiscal year.

	Fiscal Year	Important Changes in UVA Appropriations Since FY 1981*
A.	1983	A 20 percent increase in total funds reflected a 30 percent increase in medical center patient revenues and a 19 percent rise in higher education operating funds from increased tuition and fees.
B.	1987	A 29 percent increase in higher education operating funds for the academic departments and the College at Wise caused a 17 percent increase in total funds.
C.	1989	Higher medical center patient revenues and increased tuition and fees pushed university appropriations up 13 percent. Faculty salaries increased six percent and classified staff salaries increased eight percent. Also, $2.2 million in general fund appropriations were distributed to match endowment earnings under the eminent scholars program.
D.	1993	UVA's tuition and fees increased 13 percent in FY 1992 and again by 16 percent in FY 1993 to make up for the loss in general funds.
E.	1999	Higher education operating funds increased 17 percent, reflecting a 31 percent increase in operation funds for the medical center.

* Includes changes of 12 percent or more.

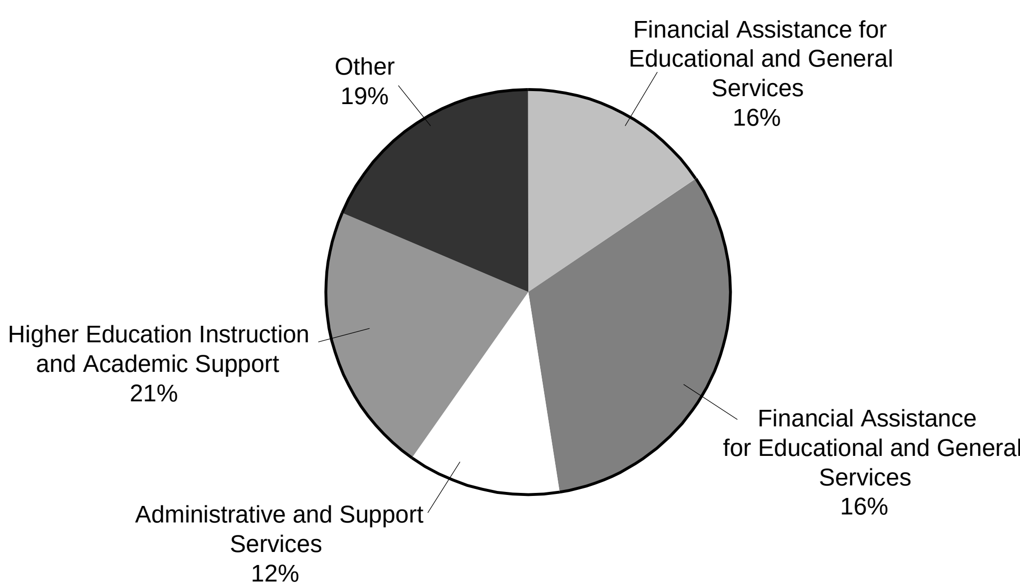
UVA Fiscal Year 2000 Financial Information

Total Appropriations = $1,121.5 million
Appropriations by Revenue Source
(Final adjusted appropriations)



* After the beginning of the budget year, most general funds are transferred to higher education operating funds for expenditure.

Total Expenditures = $1,147.9 million
Expenditures by Budget Program



UVA Programs

The University of Virginia includes these colleges:

- the College of Arts and Sciences,
- the Graduate School of Arts and Sciences,
- the School of Law,
- the School of Medicine,
- School of Architecture,
- School of Engineering and Applied Science,
- Curry School of Education,
- McIntire School of Commerce,
- Darden Graduate School of Business Administration,
- School of Nursing, and
- School of Continuing and Professional Studies.

UVA supports a variety of research as a complement to the university's academic programs. The research centers are in the disciplines of electronics, health, humanities, sciences, and social sciences, and are accompanied by university-wide centers. Examples of these centers are:

- The Center for the Liberal Arts,
- The Cooper Center for Public Service,
- The Diabetes Center,
- The Virginia Health Policy Center,
- The Virginia Foundation for the Humanities, and
- The Virginia Institute of Government.

The University of Virginia is described by Title 23, Chapter 9 of the *Code of Virginia*.

University of Virginia Contact Information

Charlottesville, Virginia

434-924-0311 (voice and TDD)

www.virginia.edu

Selected *Virginia Results* Performance Measures (as of September 2001)*

Measure	*Baseline*	*1998*	*1999*	*2000*	*Target*
Graduation rate (%)	91.5	92.0	91.0	91.3	91.0
Progression rate (%)	80.0	87.2	87.6	86.7	83.5
Retention rate (%)	16.5	9.2	9.0	10.0	14.0
Persistence rate (%)	96.6	96.5	96.6	96.7	96.0
Number of transfer students	194.0	173.0	168.0	125.0	175.0
Graduates employed in program-related work (%)	37.0	NA	64.0	64.0	37.0
Graduates pursuing further study (%)	31.6	NA	33.9	33.9	32.0
Instruction as percent of Educational and General funds	63.4	62.0	63.2	61.6	62.0
Management Standards met (%)	100.0	100.0	100.0	100.0	100.0
Classroom utilization (%)	51.7	58.4	NA	58.4	57.0
Total credit hours per full-time equivalent faculty	196.0	195.8	191.0	190.2	193.0
Research and public service expenditures per full-time faculty (thousands of dollars)	99.3	112.2	115.5	114.9	103.0

Higher education performance measure terms are defined in the glossary in Appendix E.

*See the Department of Planning and Budget's *Virginia Results* website for additional measures.

NA = Data not available on *Virginia Results*.

Performance measures for all higher education institutions (including UVA) are developed and coordinated by the State Council of Higher Education for Virginia (SCHEV). SCHEV collects and monitors this information and includes it in the *Reports of Institutional Effectiveness* (*ROIE*) for each institution. Results are posted on the SCHEV website, www.schev.edu/schevhome.html. Information on mission, profile measures, system-wide measures, and institution-specific measures are accessible.

Separate measures have been developed for UVA, the Medical Center, and the University of Virginia's College at Wise.

Agency Profile:
DEPARTMENT OF CORRECTIONS

DOC at a Glance

DOC background

The Virginia Department of Corrections (DOC) was created from the Department of Welfare and Institutions in 1974, when it housed approximately 5,300 inmates. Now DOC houses over 28,000 Virginia inmates and more than 3,000 inmates from other states. The department also supervises approximately 41,000 individuals on parole or probation.

DOC operates 59 facilities: 25 prisons, 14 correctional field units, six diversion centers, five work centers, four detention centers, four reception and classification centers, and one intensive treatment center. The variety of programs allows individuals to complete their sentences through prison alternative and community supervision programs. Also, inmates provide labor through DOC work programs that benefits the institutions, State agencies, and local governments.

Overview of DOC budget

In FY 2000, the Department of Corrections received $719 million in appropriations, according to Chapter 1072 of the 2000 Acts of Assembly, making it the sixth largest agency with respect to funding for that year. General funds account for 87 percent of that amount, and special funds (mostly from payments by other states for housing their inmates) provide 12 percent.

Between FY 1981 and FY 2000, appropriations to DOC (as stated in the final Appropriation Act of each year) increased 310 percent, with an average annual rate of change of eight percent in that time. The greatest percentage change in the agency budget, an increase of over 30 percent, occurred between 1982 and 1983, when the department opened two new correctional facilities, one in Brunswick County and one in Buckingham County.

The Department of Corrections' budget between 1981 and 2000 was influenced by many factors, including:

- The growing inmate population and the construction and opening of new facilities,
- The 1994 initiative to abolish parole,
- The rise in probation caseloads, and
- Increases for personnel salaries and fringe benefits.

Historical Comparison: DOC in FY 1981 and FY 2000

Characteristic	FY 1981	FY 2000	Change
General funds (% of agency budget)	96%	87%	-9%
Average daily inmate population	8,363	30,394	263%
Individuals on parole sentences	4,074	5,521	36%
Individuals on probation sentences	12,679	32,496	156%
Total number of facilities for all correctional programs	38	61	82%

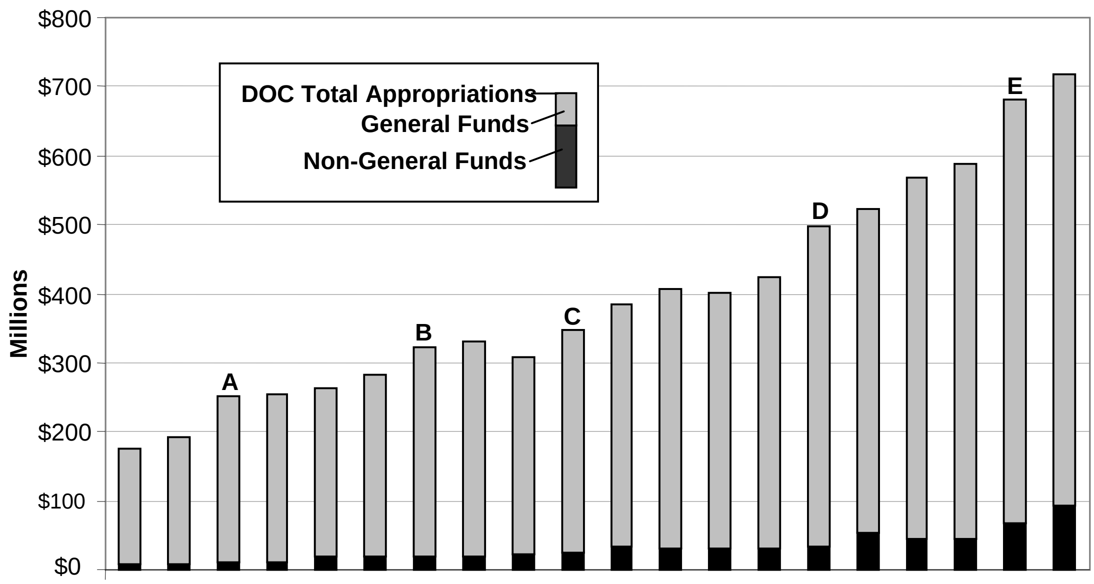
Dollars shown are nominal (not adjusted for inflation).
* Amounts from initial appropriation act of each fiscal year.
Source: DOC.

DOC Budget Trends

The Department of Corrections' budget increased over this 20-year timeframe due primarily to the substantial increase in the number of offenders who were incarcerated in State facilities, and due to State decisions to build new prisons to house them. Much of the budget increase was due to increased operating costs as the new prisons were opened. For example, since FY 1983 DOC completed 23 prison construction and renovation projects that added prison bed space, at a total construction cost of $771 million. Operating these new facilities cost more than $302 million in FY 2000, or 42 percent of the agency's total appropriation. Additional prison bed space has been procured from one private-sector correctional facility located in Virginia.

The newer prisons were designed to be more secure, more efficient, and more economical than the older prisons. One result is that the number of escapes has remained very low, despite the increased inmate population. Another result is that staffing levels did not rise as fast as the overall inmate population. The number of DOC staff assigned to the prisons and field units increased 119 percent between FY 1984 (the earliest year for which we have data) and FY 2000, while the average daily inmate population increased 221 percent over that period. (The privately operated Lawrenceville Correction Center is not staffed by DOC, but the inmates held there are included in total inmate population counts for the State.)

DOC Appropriations History



	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Funds	176	192	251	256	264	283	323	331	308	348	384	407	401	425	498	522	567	587	681	719
% Change		9.3	30.8	1.8	3.2	7.2	14.1	2.5	-6.9	12.9	10.4	6.2	-1.7	6.2	17.0	4.9	8.5	3.4	16.1	5.6

Fiscal Year

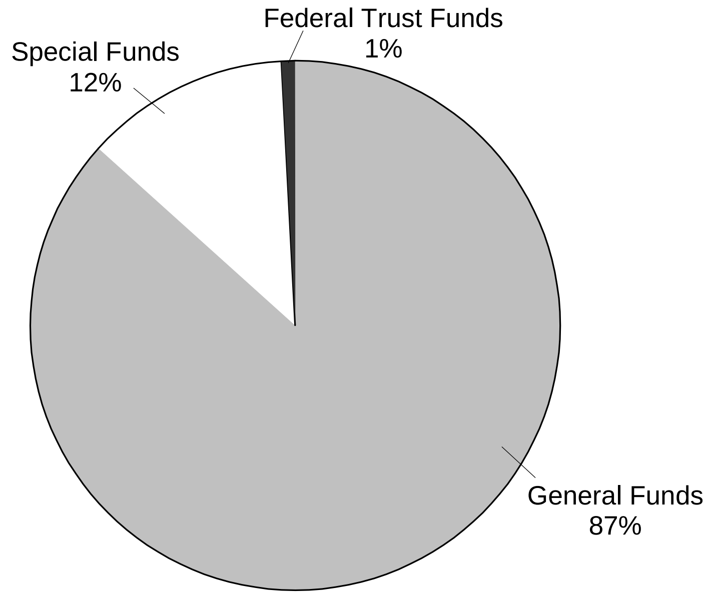
Appropriation amounts shown in chart are from the final Appropriation Act for each fiscal year.

	Fiscal Year	Important Changes in DOC Appropriations Since FY 1981*
A.	1983	The opening of the Brunswick and Buckingham Correctional Centers contributed to the 31 percent rise in DOC appropriations.
B.	1987	Opening of two new buildings at Augusta Correctional Center, in addition to other initiatives to relieve crowding, contributed to the 14 percent increase
C.	1990	DOC opened one new facility and additions to six others, resulting in a 13 percent rise in appropriations.
D.	1995	The 17 percent rise in appropriations was caused by the opening of two new correctional centers, and addition of more than 3,000 inmates to the corrections system.
E.	1999	The opening of the Sussex II, Red Onion, and Wallens Ridge Correctional Centers and the Fluvanna Correctional Center for Women, which provide maximum and super-maximum levels of security, led to a 16 percent increase in agency appropriations.

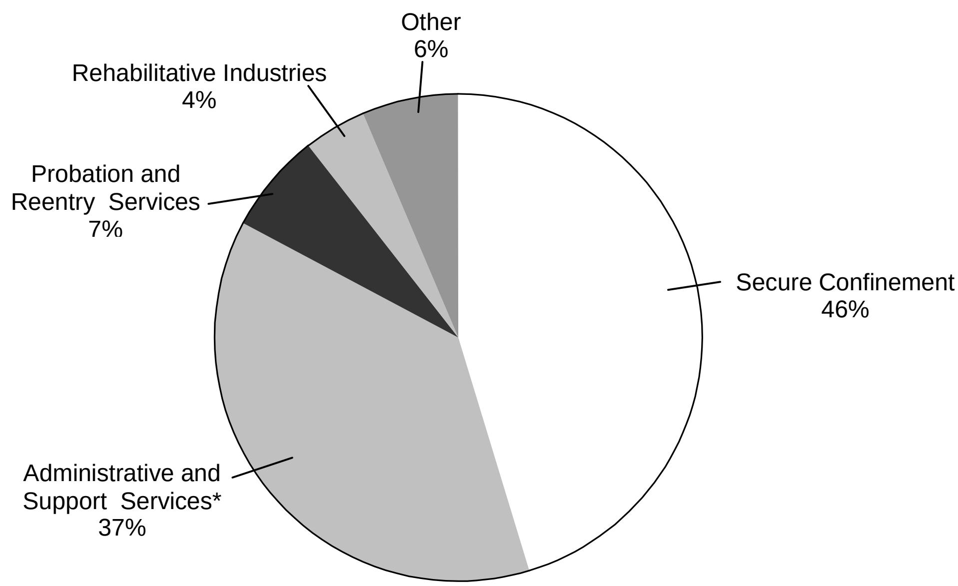
* Includes changes of 12 percent or more.

DOC Fiscal Year 2000 Financial Information

Total Appropriations = $762.2 million
Appropriations by Revenue Source
(Final adjusted appropriations)



Total Expenditures = $751.9 million
Expenditures by Budget Program



* Administrative and Support Services includes expenditures related to the care and support of DOC inmates, including medical, food and laundry services, and physical plant and power plant.

DOC Programs

The Department of Corrections helps assure public safety through the control and supervision of sentenced offenders. These offenders may require facilities and supervision provided by the institutions division of DOC. While incarcerated, individuals participate in work programs, including agribusiness, highway maintenance, Virginia Correctional Enterprises, schooling (provided by a separate department, the Department of Correctional Education) and DOC institutional jobs. Some inmates reside in work centers and provide labor to local governments and State agencies.

Some offenders are supervised by DOC's community corrections division when they leave the institutions, and others participate in community corrections programs to serve their sentences. These community corrections programs include:

- Adult residential centers,
- Boot camp,
- Day reporting centers,
- Detention centers,
- Diversion centers,
- Home electronic monitoring,
- Parole programs, and
- Probation programs.

Other DOC divisions help carry out the department's mission, providing department administration, record-keeping, public liaison programs, facility maintenance and development, and staff training.

The statutory authority for the work of the Department of Corrections is found in the *Code of Virginia*, §§53.1-101 *et seq*.

Department of Corrections Contact Information

6900 Atmore Drive Richmond, Virginia 23225	P. O. Box 26963 Richmond, Virginia 23261-6963
804-674-3000	804-674-3007 (TTY)

www.vadoc.state.va.us

Virginia Results **Performance Measures (as of November 2001)**

Measure	*Baseline*	*1998*	*1999*	*2000*	*2001*	*Target*
Annual number of serious incidents in prisons per 1,000 inmates	1.95	1.78	0.9	1.02	0.9	4.0
Average number of hours per week that inmates participate in work, school or treatment programs	30.9	NA	NA	31.6	33.2	32.0
Average number of hours worked per week by work center inmate	32.0	NA	34.7	29.6	37.9	33.0
Recidivism rate for inmates completing the DOC substance abuse therapeutic programs	50.0	NA	NA	30.5	14.0	25.0*
Total revenues earned by DOC's agriculture operations (million dollars)	5.0*	3.5*	5.0*	11.0	12.0	NA
Turnover/vacancy rate among first year correctional officers (%)	31.1	31.2*	30.0*	30.5	30.5	30.0
Utilization rate of day reporting centers	100.0	NA	111.2	102.2	119.3	100.0
Utilization rate of detention centers (%)	64.0	64.0*	83.0	74.6	80.2	69.0
Utilization rate of diversion centers (%)	53.5	53.5*	93.0	96.3	89.6	80.0
Utilization rate of work centers (%)	92.0	92.0*	90.0	89.9	88.1	95.0

Source: *Virginia Results*; additional data provided by DOC are marked with *.

NA = Data not available on *Virginia Results*.

The Department of Corrections should identify baseline and target figures for all of its performance measures. DOC should adjust targets in areas such as serious incidents and recidivism where current performance clearly exceeds the agency's stated target. The Department should also consider amending these performance measures to address the rate of recidivism and the frequency of escapes.

Useful performance measures may include:

- Number of escapees per 1,000 inmates from DOC facilities per year, and
- Number of work hours benefiting the community.

DOC reports the average number of hours worked per week by work center inmates and the utilization rate of work centers, but it would be beneficial to present the number of work hours benefiting the community as a separate measure for clarity.

Agency Profile:

DEPARTMENT OF MENTAL HEALTH, MENTAL RETARDATION, AND SUBSTANCE ABUSE SERVICES

Fiscal Analysis Section

DMHMRSAS at a Glance

DMHMRSAS background

The Department of Mental Health, Mental Retardation, and Substance Abuse Services (DMHMRSAS) provides a variety of institutional and community-based services for individuals diagnosed with mental illness, mental retardation or cognitive developmental delay, or substance dependence or abuse. DMHMRSAS provides institutional services through a series of hospitals, mental health institutes, and training centers. The agency also supports community-based services through the statewide system of community services boards (CSBs). Central to DMHMRSAS's mission is improving the quality of life and self-sufficiency of people with serious mental illnesses, emotional disturbances, mental retardation, developmental delays, and alcohol and other abuse problems.

Overview of DMHMRSAS budget

Legislative appropriations for DMHMRSAS in FY 2000 were $713 million, making it the seventh largest appropriation item in the State budget. This funding came from three major sources. State general funds accounted for 55 percent of total appropriations. Special funds from Medicare, Medicaid, private insurance and patient revenue accounted for 35 percent of the total. The remaining ten percent were provided by federal fund sources such as the mental health grant, among others.

General fund appropriations grew 219 percent (a seven percent average annual increase) since 1981. Special funds grew 183 percent (also a seven percent average increase annually), and federal trust funds grew 902 percent (15 percent annual average growth). Total funds grew an average of seven percent annually since FY 1981. In inflation adjusted terms, these growth rates were 63 percent, 45 percent, and 413 percent for general, special and federal funds, respectively.

The major DMHMRSAS budget drivers have been the shifting emphasis from treatment in institutional settings to the community, and increasing costs for institutional care. Community-based services have expanded partly through the availability of new treatment methods including new medications. Institutional costs have increased, in part, because federal staffing requirements mandate increased staff levels for a shrinking institutional population. In 1991, the General Assembly directed DMAS to seek federal Health Care Financing Administration approval of mental retardation community-based waiver programs, which drove additional mental health spending.

Historical Comparison: DMHMRSAS in FY 1981 and FY 2000

Characteristic	FY 1981	FY 2000	Change
Average Daily Census in Institutions	8,024	3,505	-56%
Total Institutional Expenditures	$183 Million	$345 Million	89%
Community Services Board Consumers Served	181,799*	201,607	11%
Community Services Board Expenditures (State Funds)	$54 Million*	$205 Million	280%
Total DMHMRSAS Expenditures	$183 Million	$710 Million	288%

* Community Services Board data from FY 1988, the earliest data available.
Dollar shown are nominal (not adjusted for inflation.)
Source: DMHMRSAS.

DMHMRSAS Budget Trends

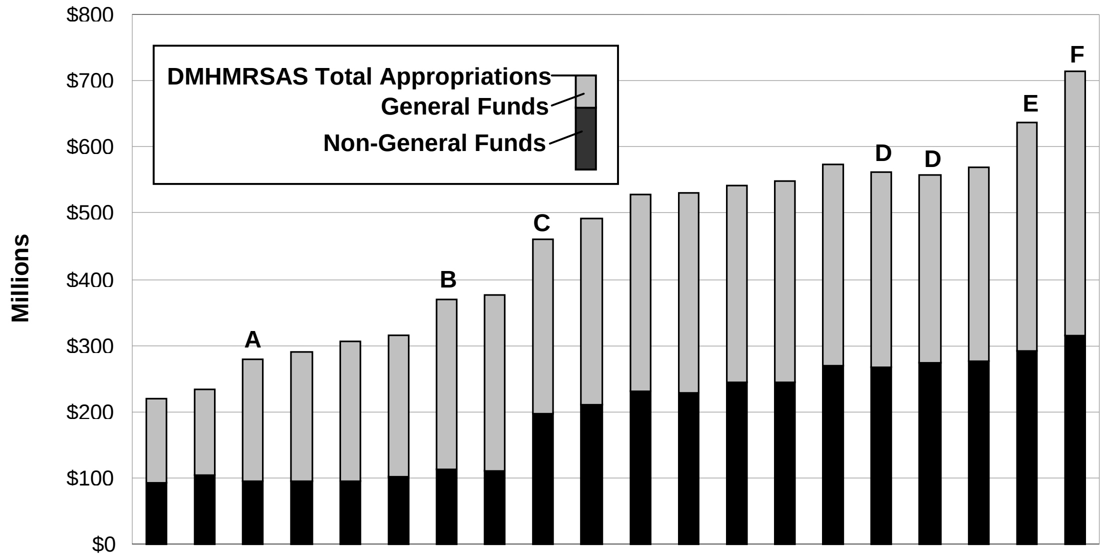
Spending growth in DMHMRSAS since FY 1981 has been characterized by two major factors. First, institutionalization has become an increasingly expensive means of treatment. While the institutional census decreased, total institutional expenditures grew. Institutional spending per patient thus grew dramatically in light of a falling census count. Institutional costs have been partly driven by federal staffing mandates that increase the ratio of staff to patients.

The second factor in the agency's spending growth has been the increased reliance on community-based treatment, through the community services boards (CSBs). Community-based care is more beneficial for some patients and may be less expensive, but as more difficult-to-treat patients are shifted to community care, the cost of serving the community population has increased. CSB spending increased 25 times faster than the increase in individuals served. This implies a dramatic increase in costs per average CSB consumer.

DMHMRSAS operates 15 institutions, including:

- Catawba Hospital,
- Central State Hospital,
- Central Virginia Training Center,
- Commonwealth Center for Children and Adolescents,
- Eastern State Hospital,
- Hiram W. Davis Medical Center,
- Northern Virginia Mental Health Institute,
- Northern Virginia Training Center,
- Piedmont Geriatric Hospital,
- Southeastern Virginia Training Center,
- Southern Virginia Mental Health Institute,
- Southside Virginia Training Center,
- Southwestern Virginia Training Center, and
- Western State Hospital.

DMHMRSAS Appropriations History



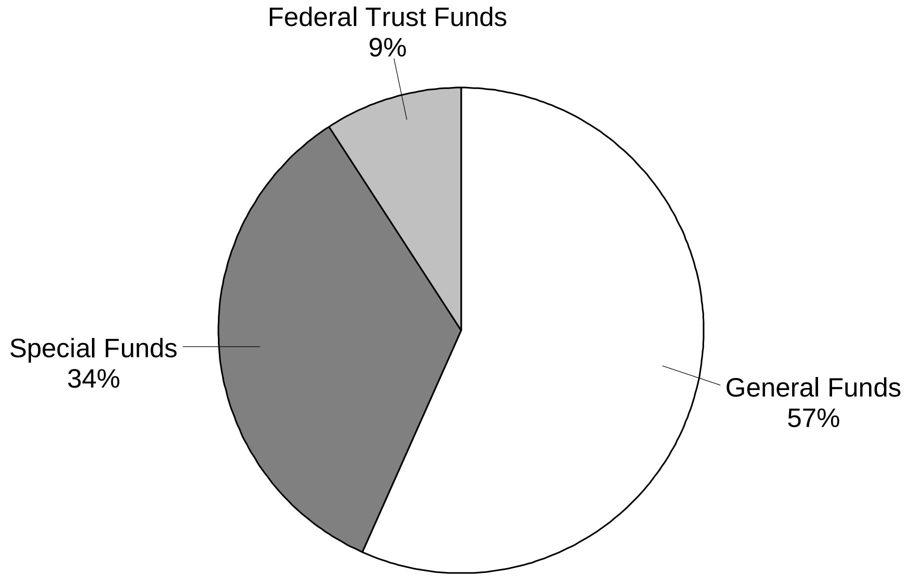
	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Funds	219	234	278	290	306	314	369	377	460	492	527	531	543	548	574	563	558	570	636	713
% Change		6.8	18.9	4.3	5.3	2.7	17.5	2.1	22.2	7.0	7.0	0.8	2.1	1.1	4.7	-2.0	-0.9	2.2	11.6	12.2

Appropriation amounts shown in chart are from the final Appropriation Act for each fiscal year.

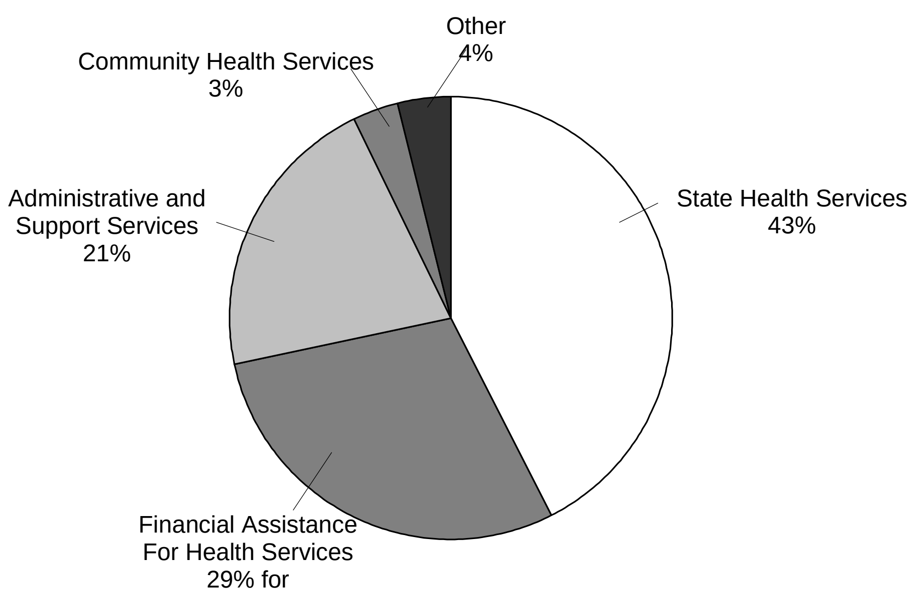
	Fiscal Year	Important Changes in DMHMRSAS Appropriations Since FY 1981
A.	1983	$7.5 million spending increase for community services, $8 million from federal block grant increases, and other increases including new staff positions.
B.	1987	$21 million for increased facility staffing to comply with federal requirements. Community Services Board spending increased by $10 million.
C.	1989	Facilities spending increased $24 million, Community Services Board spending increased by $31 million.
D.	1996-97	Central office staff reductions and delays in construction and facility staffing (-$19 million).
E.	1999	$22 million to meet federal facility staffing standards, $18 million for facility census reductions, and $6 million for antipsychotic drugs.
F.	2000	$56 million for increased community services including residential, day support, and others. $11 million to bring facility staffing into federal compliance with federal requirements, and $7 million for antipsychotic drugs.

DMHMRSAS Fiscal Year 2000 Financial Information

Total Appropriations = $729 Million
Appropriations by Revenue Source
(Final adjusted appropriations)



Total Expenditures = $710 Million
Expenditures by Budget Program



DMHMRSAS Programs

DMHMRSAS's programs serve a diverse population and can be grouped into two categories: grants to localities and facilities services. Grants to localities provide for services delivered by or through community services boards (CSBs). The CSBs are the point of entry into the State mental health system, providing pre-admission screening. CSBs also handle case management, and provide patient services themselves and through contractors.

Grants to localities for the operation of CSBs exceeded $224 million in FY 2000. These funds were divided among three broad service types: substance abuse services (36 percent), mental health services (37 percent), and mental retardation services (23 percent). General funds provided 73 percent of spending on grants to localities, with the balance mostly coming from federal trust funds.

The Department operates two basic types of facilities. The ten mental health institutes and mental health hospitals provide psychiatric, psychological, nursing support, and ancillary services. These facilities derive the bulk of their funding from the general fund. The five mental retardation training centers provide residential care and language, self-care, independent living, motor development and other specialized training. Training centers derive most of their revenue from special funds.

DMHMRSAS's 15 institutions accounted for 61 percent of total appropriations in FY 2000. These appropriations were divided among several programs. State health services accounted for 65 percent of these appropriations. Administration and support for the facilities amounted to 29 percent of total institution appropriations. Community services boards accounted for 31 percent of the total appropriation. Central office appropriations at the agency accounted for the remaining portion of DMHMRSAS appropriations or eight percent of total appropriations.

The work of DMHMRSAS is carried out under the mandates in the *Code of Virginia*, §§ 37.1-39, 37.1-10.01, and 37.1-204, among others.

DMHMRSAS Contact Information

P.O. Box 1797
Richmond, VA 23218

http://www.dmhmrsas.state.va.us

Virginia Results Performance Measures (as of November 2001)

Measure	*Baseline*	*1998*	*1999*	*2000*	*2001*	*Target*
Percentage of State hospital discharges readmitted within 30 days of discharge.	7.8%	7.8%	7.8%	6.8%	7.9%	7.0%
Number of bed days used at State hospitals per 100,000 [of Virginia] population.	12,984	10,172	9,099	7,579	8,842	7,579
Percentage of consumers/family members reporting satisfaction with Community Services Board services.	83%*	85%	85%	87%	89%	87%
Average annual cost of treating a resident in a state mental health facility.	$94,800	114,000	$135,000	$163,000	$165,000	$164,600
Average annual cost of treating a resident in a State mental retardation facility.	$74,400	84,000	$92,000	$100,000	$107,000	$107,500
Number of bed days used at training centers per 100,000 [of Virginia] population.	12,203	10,701	10,118	9,595	8,664	9,595
Percentage of all patients in State mental health facilities receiving antipsychotic medication who are receiving atypical medications.	53%	53%	68%	70%	77%	70%
Reduction in the number of State hospital bed days used by Community Services Boards receiving funding for Programs of Assertive Community Treatment Services.	217,045	169,000	145,000	111,000	94,000	106,896
* *Virginia Results* information corrected by DMHMRSAS.						

DMHMRSAS has made progress toward the target on a number of these measures. The notable exceptions are the average annual costs for institutional treatment. As these institutional cost measures are driven, in part, by federal staffing mandates, more detailed cost measures that focus on the portions of institutional cost that the Department can control may be in order. DMHMRSAS performance has exceeded the targets for a number of these measures and these targets should be adjusted accordingly. In addition, given the growing importance of community-based services, the Department may wish to develop performance measures on the costs of treatment through CSBs.

Agency Profile:
VIRGINIA POLYTECHNIC INSTITUTE AND STATE UNIVERSITY

Fiscal Analysis Section

Virginia Tech at a Glance

Virginia Tech background

Virginia Polytechnic Institute and State University (Virginia Tech) is a public doctoral and research land-grant university located in Blacksburg, with off-campus locations in Roanoke, Abingdon, Falls Church, and Richmond. Virginia Tech supports 60 bachelor's degree programs, and 110 master's and doctoral degree programs. More than 27,000 students attend Virginia Tech, making it Virginia's largest university.

Virginia Tech was founded in 1872. It is the larger of two land-grant universities in Virginia, and operates the extension programs and agricultural experiment stations for the Commonwealth in coordination with Virginia State University. The extension service is provided statewide through more than 100 local offices around Virginia, and offers a variety of educational programs and services. Tech operates 12 agricultural research and extension centers across the State. Virginia's Tech's research program was ranked 50 in 1999 in the National Science Foundation's Research Expenditure Report; the university's intent is to move to the top 30 research institutions by 2010.

Overview of Virginia Tech's budget

In FY 2000, Virginia Tech received $592 million (Chapter 1072, *2000 Acts of Assembly*), making it the eighth largest State agency with respect to funding. Higher education operating funds, which include the tuition and fees paid by students and research funds, as well as other funds, made up 59 percent of the university budget. General funds accounted for 40 percent of Virginia Tech's appropriations.

In 1981, appropriations to Virginia Tech totaled almost $168 million. At that time, the university had 22,624 full-time equivalent students; a full-time undergraduate from Virginia paid $972 in tuition and fees for the year. From 1981 until 2000, the university's budget grew 274 percent, with an average annual rate of change of seven percent. In 2000, Tech supported 27,361 full-time equivalent students; a full-time undergraduate in-state student paid $3,620 in tuition and fees.

Between 1981 and 2000, the university's spending and budget were driven by:

- The goal of increasing faculty salaries to the 60th percentile of salaries at Virginia Tech's peer institutions;
- Increased financial assistance to students;
- Enrollment growth without proportional receipt of supporting general funds;
- Increasing sponsored research and programs; and
- The development of the Virginia-Maryland Regional College of Veterinary Medicine.

Virginia Tech in FY 1981 and FY 2000

Characteristic	FY 1981	FY 2000	Change
General funds (% of agency budget)*	54%	40%	-26%
Total funding for sponsored research and programs	$38 million	$193 million	+408%
National rank in research and development expenditures	59	50 (FY 1999)	Improved ranking
Tuition and fees (in-state, undergraduate)	$972	$3,620	+272%
Endowment	$19 million	$343 million	+1,705%
Number of full-time equivalent students	22,624	27,361	+21%

Dollars shown are nominal (not adjusted for inflation).
Sources: Virginia Tech and the National Science Foundation.
* Amounts from final appropriation act of each fiscal year.

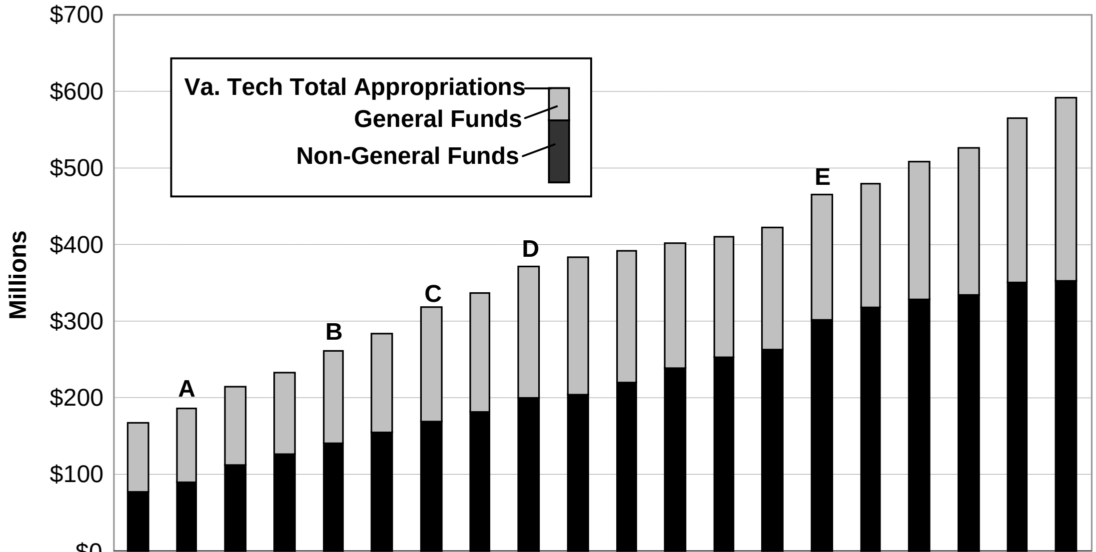
Virginia Tech Budget Trends

Like other State-supported institutions of higher education, Virginia Tech's budget growth has been driven by increases in nongeneral funds such as tuition, fees, and sponsored research and programs. Changes in State funding policy also had a marked effect on Tech's budget. For example, State general fund support increased as a share of Tech's budget during the 1980s and then decreased in the early 1990s as a result of the State's response to economic difficulties. Overall, general fund support has declined as a portion of the university's total budget. By the close of the 1990s, general fund appropriations to Tech represented 40 percent of the institution's overall budget.

Tuition and fees increased, as did State-supported financial aid, in the early 1990s to help offset reductions in general funds to support Tech. A tuition freeze for in-state students, adopted by the General Assembly in FY 1995, allowed a tuition increase cap of three percent in FY 1995 and FY 1996, and then tuition was frozen from FY 1997 through FY 1999. The 1999 General Assembly enacted a 20 percent tuition rollback effective FY 2000, with general funds compensating for the decline in institutional tuition revenue.

Growth in appropriations has provided Virginia Tech the ability to expand sponsored research programs, increase faculty salaries, and increase financial aid to students.

Virginia Tech Appropriations History



	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Funds	168	185	214	233	262	284	318	337	371	384	392	403	410	423	465	480	509	526	566	592
% Change		10.2	15.5	8.9	12.6	8.4	11.7	6.0	10.2	3.6	2.0	2.8	1.6	3.2	10.0	3.1	6.0	3.3	7.6	4.6

Fiscal Year

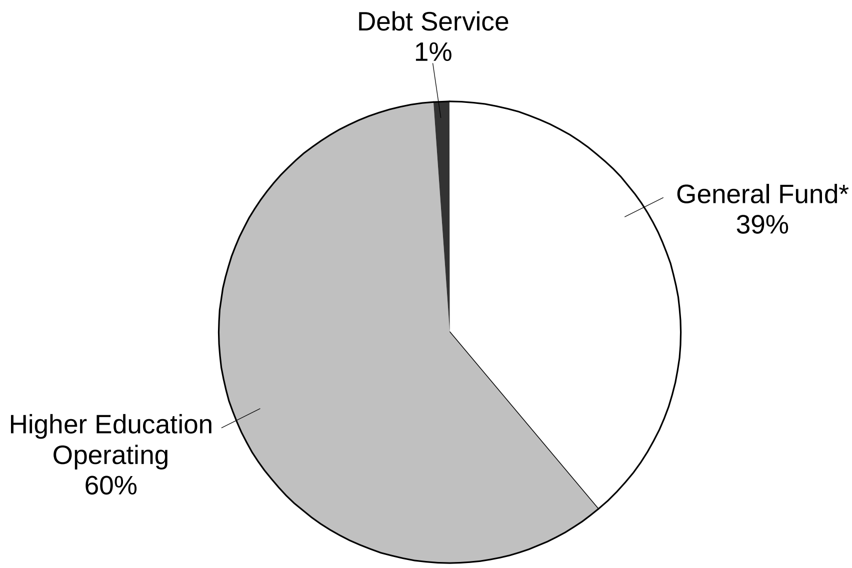
Appropriation amounts shown in chart are from the final Appropriation Act for each fiscal year. And from Chapter 622, 1983 Acts of Assembly, and Chapter 619, 1985 Acts of Assembly.

	Fiscal Year	Important Changes in Virginia Tech Appropriations Since FY 1981*
A.	1982	Development and growth of the Virginia-Maryland Regional College of Veterinary Medicine contributed to the ten percent growth in appropriations, along with increased student financial assistance and monies to support the land-grant mission of the university.
B.	1985	Increased sponsored research and funding for student financial assistance contributed to the 13 percent increase in appropriations.
C.	1987	Adoption of the State policy to increase faculty salaries to the 60th percentile of Virginia's Tech's peer institutions required more funds, contributing to a 12 percent increase in appropriations.
D. and E.	1989 and 1995	Increases in tuition, auxiliary enterprises, and sponsored research contributed to the ten percent growth each year in appropriations.

* Includes changes of 10 percent or more.

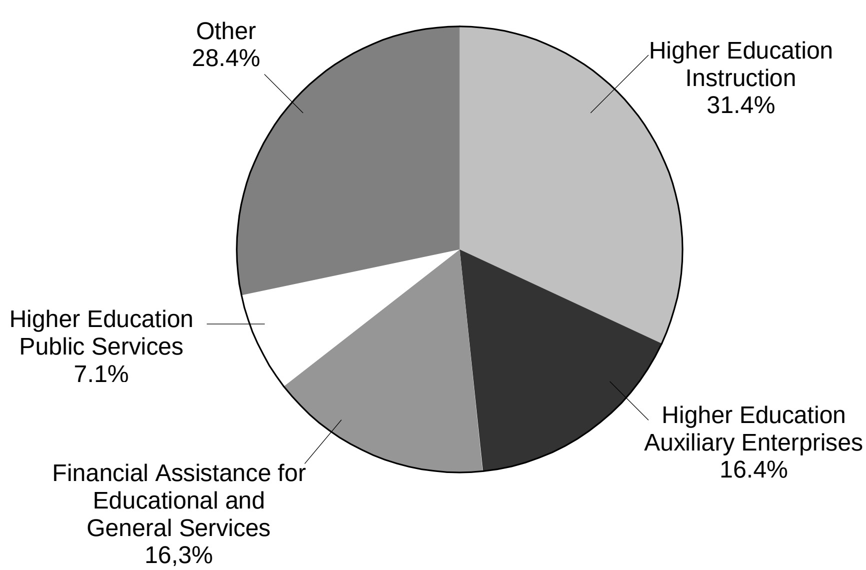
Virginia Tech Fiscal Year 2000 Financial Information

Total Appropriations = $627.6 million
Appropriations by Revenue Source
(Final adjusted appropriations)



* After the beginning of the budget year, most general funds are transferred to higher education operating funds for expenditure.

Total Expenditures = $608.4 million
Expenditures by Budget Program



Virginia Tech Programs

Virginia Polytechnic Institute and State University supports seven undergraduate colleges:

- the College of Agriculture and Life Sciences,
- the College of Architecture and Urban Studies,
- the College of Arts and Sciences,
- the Pamplin College of Business,
- the College of Engineering,
- the College of Natural Resources, and
- the College of Human Resources and Education.

Graduate degrees are offered through the Graduate School and the Virginia-Maryland Regional College of Veterinary Medicine.

Virginia Tech supports a variety of research in complement to the university academic programs. The research centers represent a wide variety of academic pursuits at the school. Examples of the centers include:

- the Virginia Tech Transportation Institute,
- the Materials Research Institute,
- the Virginia Center for Housing Research,
- the Center for Gerontology,
- the Center for Wireless Technology, and
- the Virginia Bioinformatics Institute.

Virginia Tech's Cooperative Extension Program serves citizens of Virginia through education of individuals and communities across the Commonwealth.

The statutory authority for the work of Virginia Polytechnic Institute and State University is found in the *Code of Virginia*, §23-130 and §23-132.1.

Virginia Polytechnic Institute and State University Contact Information

Blacksburg, Virginia 24061

540-231-6000
TDD/TTY: 540-231-3749

www.vt.edu

Virginia Tech Performance Measures

Selected *Virginia Results* Performance Measures (as of September 2001)[1]

Measure	*Baseline*	*1998*	*1999*	*2000*	*Target*
Graduation rate (%)	70.6	72.0	71.3	71.1	70.0[2]
Progression rate (%)	68.5	68.2	65.7	67.2	67.5[2]
Retention rate (%)	17.9	18.8	22.6[3]	19.4	19.6[2]
Persistence rate (%)	86.4	87.0	88.3	86.6	87.1[2]
Number of transfer students	496.0	502.0	538.0	433.0[2]	440.0[2]
Graduates employed in program-related work (%)	43.6	NA	53.3	NA	48.0[2]
Graduates pursuing further study (%)	20.4	NA	26.3	NA	23.0
Instruction as percent of Educational and General funds	63.5	61.5	63.8	64.1	63.1[2]
Management Standards met (%)	100.0	100.0	100.0	100.0	100.0
Classroom utilization (%)	68.0	77.0	NA	77.0	73.0
Total credit hours per full-time equivalent faculty	226.0	240.0	235.0	230.0	227.0
Research and public service expenditures per full-time faculty (thousands of dollars)	66.0	71.2[2]	73.1	81.8	83.4

Higher education performance measure terms are defined in the glossary in Appendix E.

1. See the Department of Planning and Budget's *Virginia Results* website for additional measures.
2. *Virginia Results* data corrected by Virginia Tech.
3. Additional data provided by Virginia Tech.

NA = Data not available on *Virginia Results*.

Performance measures for all higher education institutions (including Virginia Tech) are developed and coordinated by the State Council of Higher Education for Virginia (SCHEV). SCHEV collects and monitors this information and includes it in the *Reports of Institutional Effectiveness* (*ROIE*) for each institution. Results are posted on the SCHEV website, www.schev.edu/schevhome.html. Information on mission, profile measures, system-wide measures, and institution-specific measures are accessible.

Separate measures have been developed for Virginia Tech's Cooperative Extension and Agricultural Experiment Station division.

Agency Profile: VIRGINIA COMMONWEALTH UNIVERSITY

VCU at a Glance

VCU background

Virginia Commonwealth University (VCU) is a public doctoral and research university located in Richmond, and is comprised of 11 schools, one college, and the VCU Health System. It supports 50 baccalaureate programs, 12 of which are unique in Virginia. Of the 60 master's programs, 23 are unique in the State. VCU also offers 21 doctorate, three first professional, and 28 certificate programs. The university serves over 25,000 students annually.

VCU was formed in 1968 through the merger of the Richmond Professional Institute and the Medical College of Virginia. In 1997, the General Assembly with the support of VCU established the Medical College of Virginia Hospitals Authority, which allowed the hospital to serve the educational requirements of a teaching hospital while remaining a competitive health care provider, and had a separate budget. Reorganization of the Authority led to the creation of the VCU Health System in 2000.

Overview of VCU budget

In FY 2000, VCU ranked as the ninth largest agency in State appropriations. The university received $501 million (Chapter 1072, *2000 Acts of Assembly*). General funds accounted for 34 percent of those appropriations; 64 percent was composed of higher education operating funds, which incorporate student-paid tuition and fees, as well as other operating monies.

Since 1981, VCU's total budget has increased 333 percent, an average of eight percent per year. In 1981, VCU had 15,700 full-time equivalent students. The tuition and fees paid then by a full-time undergraduate from Virginia were $1,104. In academic year 1999-2000, the in-state undergraduate tuition and fees had increased to $3,587, when VCU educated 18,979 full-time equivalent students.

The university's spending and budget since 1981 have been driven by:

- Enrollment increases and responses to changes in academic programs;
- The competitive job market for university faculty;
- Changes in the economy, including the recession of the early 1990s and the rapid expansion of the later 1990s;
- Growth in the proportion of research funding provided to the university by the federal government; and
- The necessity of keeping pace with rapid development in technology for both instructional and administrative purposes.

Historical Comparison: VCU in FY 1981 and FY 2000

Characteristic	FY 1981	FY 2000	Change
General funds (% of agency budget)[1]	51%	34%	-33%
Total funding for sponsored research and programs	$28 million	$100 million	258%
National rank in research and development expenditures	93	107 (FY 1999)	Ranking declined
Tuition and fees (in-state, undergraduate)	$1,104	$3,587	225%
Endowment[2]	$0	$29,011,000	Substantial increase
Number of full-time equivalent students	15,700	18,979	21%

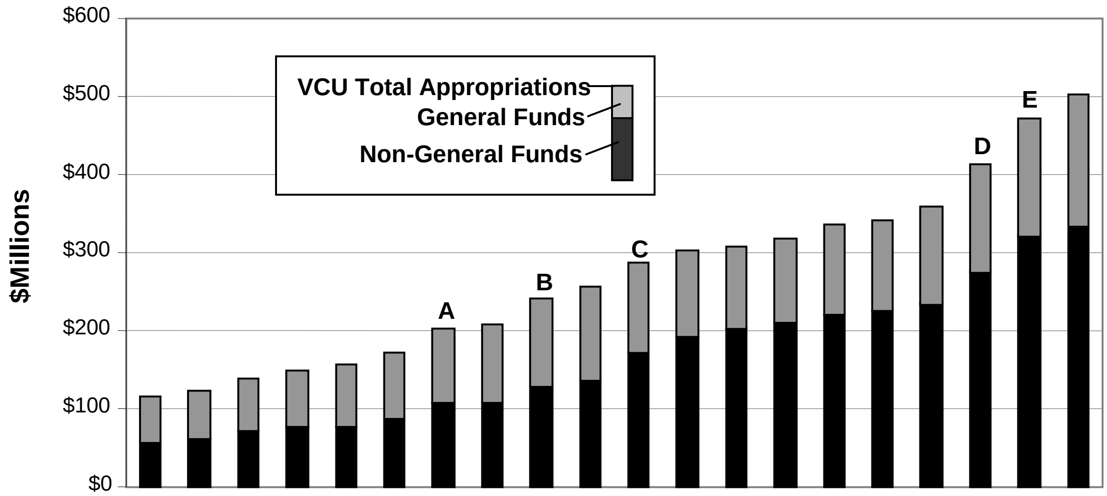
Dollars shown are nominal (not adjusted for inflation).
Sources: VCU and the National Science Foundation.
1. Amounts from initial appropriation act of each fiscal year.
2. “Endowment” does not include funds held by VCU-affiliated foundations.

Like other State-supported institutions of higher education, VCU’s budget growth has been driven by increases in such non-general funds as tuition, fees, sponsored research and programs, and revenues from auxiliary enterprises. Changes in State funding policy had a marked effect on VCU’s budget. For example, State general funds increased as a share of VCU’s budget during the 1980s and then decreased in the early 1990s as a result of the State’s response to economic difficulties. Consequently, general funds have declined as a portion of the university’s overall budget. By the close of the 1990s, general fund appropriations to VCU represented 34 percent of the institution’s overall budget

Tuition and fees increased (as did State-sponsored financial aid) in the early 1990s to help offset reductions in general funds to VCU. A tuition freeze for in-state students, adopted by the General Assembly in FY 1995, allowed a tuition increase cap of three percent in FY 1995 and FY 1996, and then tuition was frozen from FY 1997 through FY 1999. The 1999 General Assembly enacted a 20 percent tuition rollback effective FY 2000, with general funds compensating for the decline in institutional tuition revenue. Another key State decision affecting the VCU appropriation was the establishment in FY 1997 of the Medical College of Virginia Hospital Authority as an independent entity, which removed this $410 million operation from VCU’s budget.

Growth in appropriations has provided VCU the ability to offer competitive faculty salaries, accommodate changes in academic programs (including the creation of a new engineering program), and provide current technology for the university.

VCU Appropriations History



Fiscal Year	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Funds	115	123	137	148	157	169	202	209	240	256	288	303	308	317	336	341	362	414	474	501
% Change		6.1	12.2	7.8	6.0	7.4	19.9	3.4	14.8	6.6	12.8	5.0	1.7	3.0	6.0	1.5	6.2	14.5	14.3	5.6

Fiscal Year

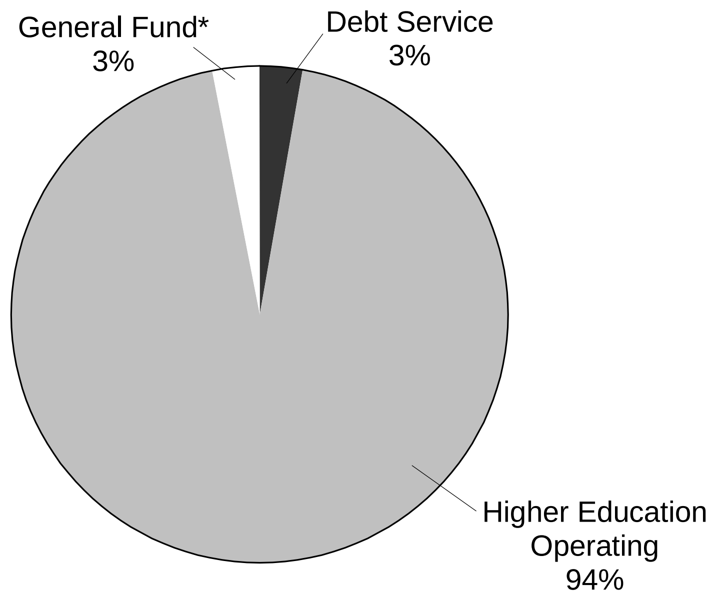
Appropriation amounts shown in chart are for the final Appropriation Act for each fiscal year.

	Fiscal Year	Important Changes in VCU Appropriations Since FY 1981*
A.	1987	Funding increased 20 percent as a result of additional monies for faculty salaries, operating costs, and growth in sponsored program funds.
B.	1989	The 14 percent increase in appropriations included new revenue from auxiliary enterprises, new program funding, and growth in sponsored programs.
C.	1991	Higher education operating funds increased 42 percent when VCU raised tuition and fees to counter reductions in general fund appropriations. Sponsored programs also experienced major growth.
D. E.	1998 and 1999	Appropriations to VCU grew more than 14 percent in each of these years. Increased enrollment, higher indirect cost recoveries from growing sponsored programs, growth in auxiliary enterprises, increased and additional fees and the addition of programs with unique tuition rates contributed to the growth in higher education operating funds.

* Includes changes of 13 percent or more.

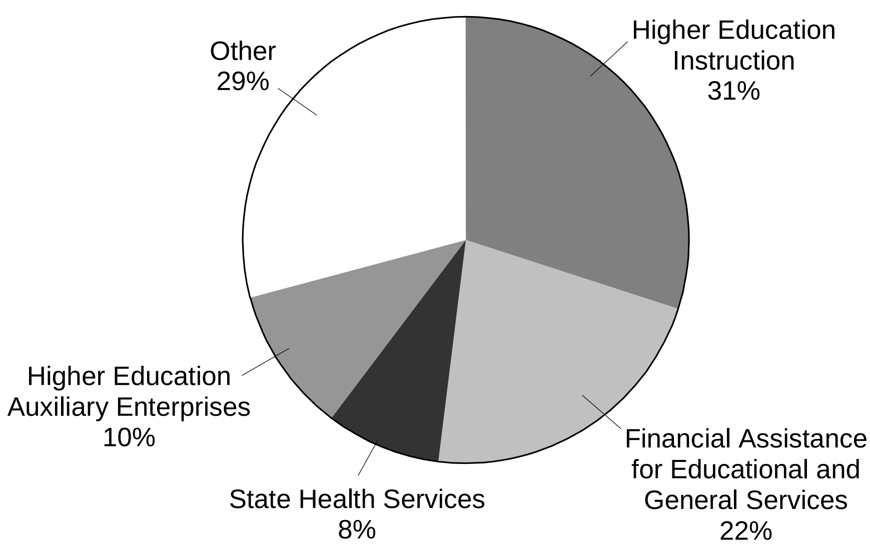
VCU Fiscal Year 2000 Financial Information

Total Appropriations = $515.2 million
Appropriations by Revenue Source
(Final adjusted appropriations)



* After the beginning of the budget year, most general funds are transferred to higher education operating funds for expenditure.

Total Expenditures = $499.0 million
Expenditures by Budget Program



VCU Programs

Virginia Commonwealth University is composed of 11 schools and one college:

- School of Allied Health Professions,
- School of the Arts,
- School of Business,
- School of Dentistry,
- School of Education,
- School of Engineering,
- College of Humanities and Sciences,
- School of Mass Communications,
- School of Medicine,
- School of Nursing,
- School of Pharmacy, and
- School of Social Work.

VCU supports research centers and institutes to complement the university academic programs. Examples of such programs include:

- The Institute for Women's Health,
- The Center for Public Policy,
- Massey Cancer Center,
- The Institute for Outcomes Research,
- The Institute for Psychiatric and Behavioral Genetics, and
- The Center for Environmental Studies.

Virginia Commonwealth University is authorized by *Code of Virginia* §23-50.4 *et seq*.

Virginia Commonwealth University Contact Information

Richmond, Virginia 23284

804-828-0100 (voice and TDD)

www.vcu.edu

Selected *Virginia Results* Performance Measures (as of September 2001)*

Measure	*Baseline*	*1998*	*1999*	*2000*	*Target*
Graduation rate (%)	43.2	41.8	42.1	39.0	42.0
Progression rate (%)	48.0	53.8	50.5	55.7	54.0
Retention rate (%)	26.8	23.1	23.2	22.1	24.0
Persistence rate (%)	74.7	76.9	73.7	77.8	78.0
Number of transfer students	756.0	843.0	744.0	764.0	845.0
Graduates employed in program-related work (%)	50.6	NA	54.0	NA	50.6
Graduates pursuing further study (%)	17.0	NA	42.1	NA	17.0
Instruction as percent of Educational and General funds	66.0	66.1	64.9	65.0	66.0
Management Standards met (%)	100.0	100.0	100.0	100.0	100.0
Classroom utilization (%)	59.1	63.0	NA	NA	60.0
Total credit hours per full-time equivalent faculty	193.0	197.0	193.8	191.1	201.0
Research and public service expenditures per full-time faculty (thousands of dollars)	89.8	99.8	100.2	101.8	95.0

Higher education performance measure terms are defined in the glossary in Appendix E.

*See the Department of Planning and Budget's *Virginia Results* website for additional measures.

NA = Data not available on *Virginia Results*.

Performance measures for all higher education institutions (including VCU) are developed and coordinated by the State Council of Higher Education for Virginia (SCHEV). SCHEV collects and monitors this information and includes it in the *Reports of Institutional Effectiveness* (*ROIE*) for each institution. Results are posted on the SCHEV website, www.schev.edu/schevhome.html. Information on mission, profile measures, system-wide measures, and institution-specific measures are accessible.

Agency Profile:

COMPENSATION BOARD

Compensation Board at a Glance

Compensation Board background

The Compensation Board provides State financial support for the local constitutional officers. The Board supports these officials and their employees with the State's share of salaries, office expenses, and the cost of operation for local and regional jails. The *Code of Virginia* authorizes the Compensation Board to determine the allocation of the State resources provided. Localities may supplement the State's provisions.

The local constitutional officers are elected to the positions of sheriff, treasurer, commissioner of revenue, Commonwealth's attorney, and clerk of the circuit court. In FY 2000, Virginia supported 626 constitutional officers and their staffs through the Compensation Board. Regional jail staff, directors of finance, drug prosecutors, and their staffs are also supported by the Board.

Overview of Compensation Board budget

The Compensation Board was the tenth largest State agency with respect to FY 2000 funds. The Board received $453 million in FY 2000 (Chapter 1072, *2000 Acts of Assembly*); general funds composed 99 percent of that appropriation.

By FY 2000, funding for the Board had increased 755 percent over the FY 1981 level. The average annual rate of increase was 13 percent. The largest percentage increase in funding came in 1985, when the Board received an additional $64.3 million in appropriations, an 81 percent increase in the agency's budget. This increase in the agency's budget stemmed from a bookkeeping move to consolidate funding in the Compensation Board, and did not reflect increased State spending on constitutional officers. Previously, much of the funding for constitutional officers was managed from the central appropriations portion of the Appropriation Act.

Compensation Board spending between FY 1981 and FY 2000 was most influenced by:

- Transfer of jail-support funding from the Department of Corrections in FY 1983;
- Consolidation of constitutional officer funding in FY 1985;
- The change in the funding structure of clerks from fee-based deficit funding to general fund reimbursement in FY 1993; and
- The continuous addition of positions and funding for sheriff's offices and regional jails, based on funding formulas in the *Code of Virginia*.
- The increase in per diem payments based upon funding formulas specified in the *Code of Virginia*, resulting from continuous increases in jail populations.

Historical Comparison: Compensation Board in FY 1981 and FY 2000

Characteristic	FY 1981	FY 2000	Change
General funds (% of agency budget)[1]	100%	99%	-1%
Population of Virginia	5,444,097[2]	7,078,515[3]	30%
Local inmate population (annual average)	4,825 (in FY 1983)	17,773	268%
Total number of positions funded by the Compensation Board	5,978 (in FY 1991)	9,833	64%
Number of jail positions funded by the Compensation Board	3,238 (in FY 1991)	6,284	94%

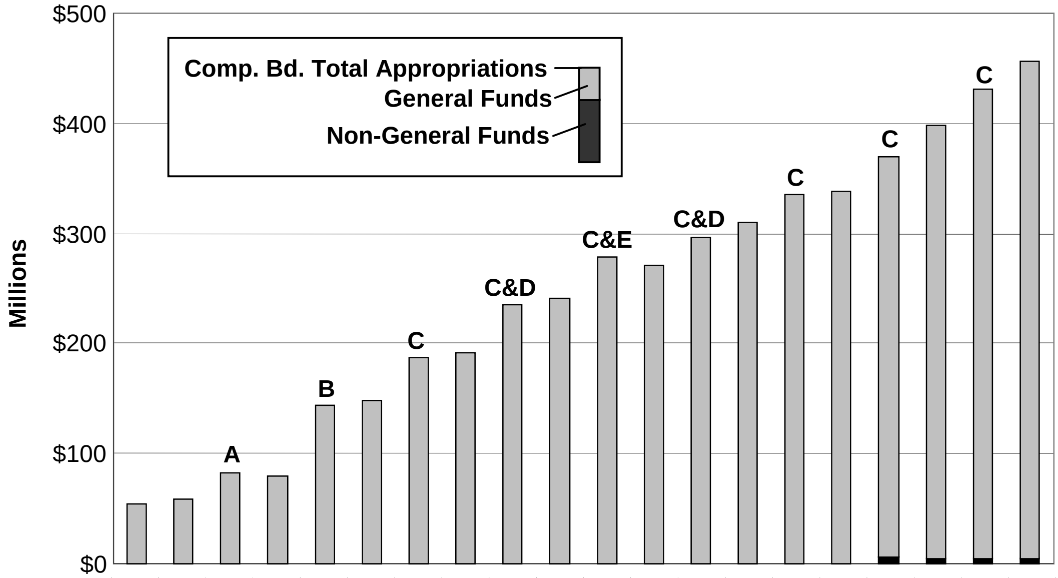
1. Amounts from initial appropriation act of each fiscal year.
2. 1981 calendar year estimate from 1980 U.S. Census
3. Source: 2000 U.S. Census (calendar year)

Compensation Board Budget Trends

The budget for the Compensation Board increased over the 20-year period of this review due mainly to the consolidation of State funding for constitutional officers into the Board's budget, and to increased funding for sheriffs' offices and regional jails. In the early 1980s, funding for constitutional officers located in other parts of the budget was consolidated into the Compensation Board, causing the agency's budget to increase 81 percent in FY 1985 over the prior year. This was done without a significant increase in State funding for the constitutional officers.

The number of staff positions for constitutional officers, especially sheriffs and regional jails, is a major determinant of the Compensation Board's budget, as is the amount paid by the Board for each position. Both of these factors increased significantly over the period, generally as a result of new jail construction, increased jail populations, and increased State population. As noted in the historical comparisons above, the total number of positions increased 64 percent since FY 1991, while the number of deputy sheriffs and regional jail officers working in jails increased 94 percent. These increases are driven primarily by the 268% increase in jail inmates. In addition to providing funding for the salaries of the deputy sheriffs and regional jail officers, the Compensation Board also pays a per diem amount for each inmate held in jail on a State warrant.

Compensation Board Appropriations History



	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total Funds	53	58	82	79	143	148	187	191	235	242	278	271	297	309	336	339	370	398	432	457
% Change		7.9	41.9	-3.5	81.3	3.5	26.2	2.1	22.8	2.9	15.0	-2.3	9.5	4.1	8.5	1.0	9.3	7.4	8.5	5.9

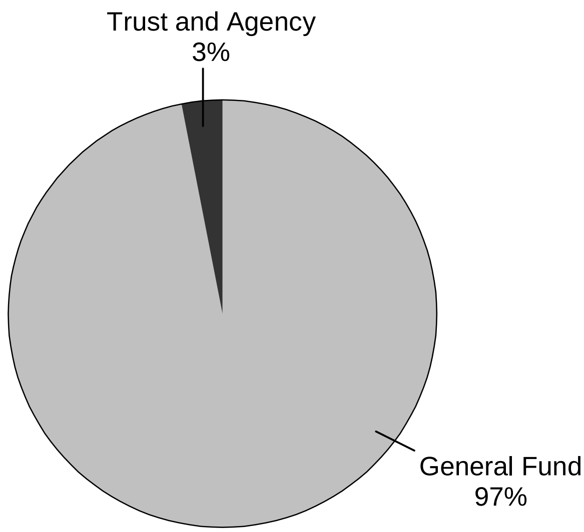
Fiscal Year

Appropriation amounts shown in chart are from the final Appropriation Act for each fiscal year.

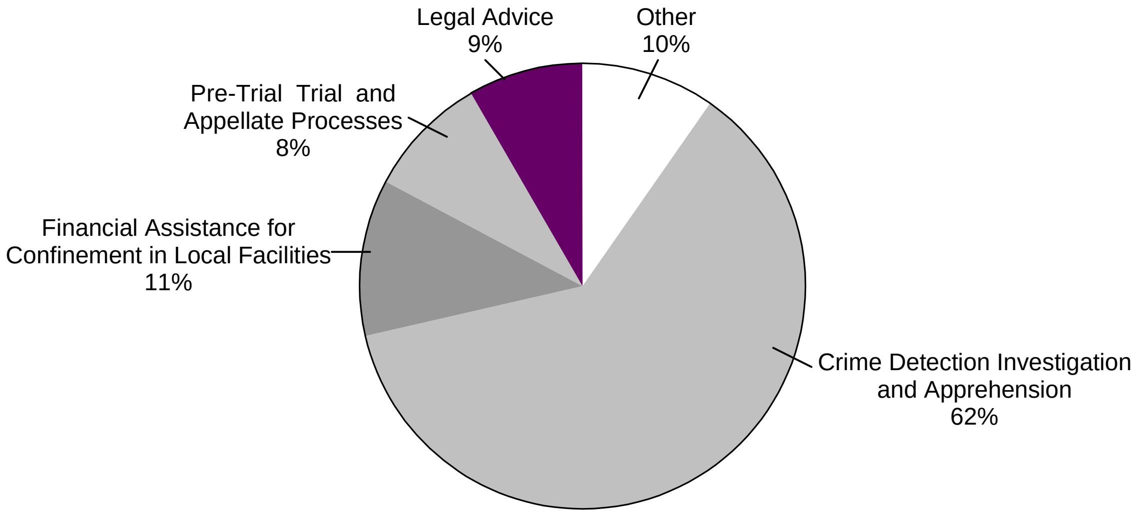
	Fiscal Year	Important Changes in Compensation Board Appropriations Since FY 1981
A.	1983	Transfer of $24.2 million in funding for jail personnel and facilities from the Department of Corrections to the Compensation Board resulted in a 42 percent increase in appropriations.
B.	1985	An 81 percent increase in funding resulted from permanently moving appropriations to the Board, ending the practice prior to 1985 of administrative transferring funds from central appropriations to the Board.
C.	1987 & following alternate years	Each increase in appropriations represents salary increases over the previous two years. Lower biennial changes represent lower pay increases; higher pay increases were provided in the late 1980s (pay raises for constitutional officers and their employees have generally been consistent with the amounts approved for State employees).
D.	1989	An almost 23 percent increase in appropriations included money to address overcrowding in jails.
E.	1991	Additional appropriations supported changes in staffing standards for circuit court clerks, raising funding to the Compensation Board by 15 percent.
F.	1993	Clerk funding was changed from fee-based deficit funding to general fund reimbursement.

Compensation Board Fiscal Year 2000 Financial Information

Total Appropriations = $508.9 million
Appropriations by Revenue Source
(Final adjusted appropriations)



Total Expenditures = $474.7 million
Expenditures by Budget Program



Compensation Board Programs

The Compensation Board is a relatively small agency (in terms of staff positions) that serves 651 offices in the cities and counties of the Commonwealth. The Board determines the State's portion of the local constitutional officers' budgets, and provides localities with Virginia's contribution to the cost of jailing inmates. The Board also reports on the collection of court-ordered fees, the cost of operating jails, and jail population sizes in the Commonwealth. The Compensation Board also provides training in jail management and lawful employment for constitutional officers and their employees.

Specifically, the Compensation Board determines the State share of funding for these establishments, and provides reimbursement to most of them on a monthly basis:

- 123 sheriff's offices,
- 18 regional jail facilities,
- 120 commonwealth's attorney's offices,
- 7 regional drug prosecutor offices,
- 120 circuit court clerk's offices,
- 129 treasurer's offices,
- 6 finance director's offices, and
- 128 offices of the commissioners of the revenue.

The work of the Compensation Board is mandated in the *Code of Virginia*, §15.2-1636.8.

Compensation Board Contact Information

202 North 9th Street, 10th Floor
Richmond, Virginia 23219

P. O. Box 710
Richmond, Virginia 23218-0710

804-786-0786

http://www.cns.state.va.us/compboard

Virginia Results Performance Measures (as of November 2001)

Measure	Baseline	1998	1999	2000	2001	Target
Customer satisfaction survey results: sheriffs' feedback (5 = maximum satisfaction)	3.63	4.10	4.00	**	**	3.63
Customer satisfaction survey results: providing direct assistance to constitutional officers* (5 = maximum satisfaction)	4.26*	4.34*	4.33*	**	**	4.26*
Customer satisfaction survey results: administering monthly reimbursement process* (5 = maximum satisfaction)	4.35*	4.46*	4.39*	**	**	4.35*

* *Virginia Results* information corrected by the Compensation Board.

** Performance measure evaluation discontinued by the Compensation Board.

Performance measures obtained from *Virginia Results* in November 2001 were not congruent with information provided by the Compensation Board. The agency-corrected information is presented above.

The Compensation Board has indicated the agency discontinued evaluation of these measures in 2000, when the customer service survey that yielded this information was revised. Data from the revised survey is being used by the agency to develop new performance measures.

The Compensation Board should consider developing performance measures that will focus on the outcomes of agency efforts.

APPENDICES

APPENDIX A

HOUSE BILL 2865
2001 Session

A Bill to amend the Code of Virginia by adding a section numbered § 30-58.3, relating to an annual report on state spending by the Joint Legislative Audit and Review Commission.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding a section numbered 30-58.3, as follows:

§ 30-58.3. Annual Report on State Spending.

A. No later than November 15 of each year, the Commission shall provide to the Governor and the General Assembly an annual report on state spending that shall include, among other things, (i) an identification and analysis of spending functions and programs that could be consolidated with other programs without diminishing the quality of the services provided to the citizens of the Commonwealth; (ii) an identification and analysis of those spending functions or programs which no longer have a distinct and discernible mission or are not performing their missions efficiently; (iii) an identification and analysis of the state programs that have had the largest impact on the growth of state spending over the prior five biennia, in dollar terms; (iv) an identification and analysis of the programs growing the fastest in percentage terms; (v) for the programs identified as the largest or fastest-growing, comparisons of the growth in spending on those programs to the rate of increase in inflation and the growth in populations served by those programs over a comparable time period; (vi) an analysis of the causes for the growth in spending on the largest and fastest-growing programs and whether the growth in spending appears rationally related to the rates of increase in inflation, tax relief measures, mandated expenditures, populations served, or any other related matter; and (vii) such other related issues as it deems appropriate.

B. All agencies of the Commonwealth shall provide assistance to the Commission in the preparation of this report, upon request.

HOUSE JOINT RESOLUTION 773
2001 Session

Directing the Joint Legislative Audit and Review Commission to analyze the growth in spending by the Commonwealth since Fiscal Year 1981.

WHEREAS, since Fiscal Year 1981 general fund expenditures by the Commonwealth have grown from $5.7 billion to $25.1 billion in Fiscal Year 2001; and

WHEREAS, the growth in spending by the Commonwealth over the past two decades has significantly exceeded the Commonwealth's population growth and the rate of inflation; and

WHEREAS, the baseline budget of the Commonwealth has increased and grown dramatically during the past several years, to the sum of a $50 billion biennial budget; and

WHEREAS, a budget of this size, scope, and complexity requires the detailed and comprehensive supervision of the General Assembly; and

WHEREAS, while the budget is drafted and approved based on the most accurate fiscal and budgetary forecasts available during the brief legislative sessions, data may change in response to changing economic conditions subsequent to the session; and

WHEREAS, the Commonwealth provides, in addition to state-run agencies, extensive funds to private organizations and groups to advance legitimate state interests and the public policy goals of the General Assembly; and

WHEREAS, the General Assembly, while not exercising daily supervision and control of these private organizations and their operations, nevertheless retains its constitutional obligation and mandate to exercise sound stewardship of state funds on behalf of the people of the Commonwealth; and

WHEREAS, this sound stewardship requires that a full, complete and accurate accounting of the spending of state funds be made by any private organization that receives funding from the General Assembly; and

WHEREAS, an accurate and comprehensive analysis of the Commonwealth's spending trends over the past two decades would be a highly valuable aid to the fulfillment of the General Assembly's constitutional duty to appropriate the revenue derived from the taxpayers of the Commonwealth and its duty to protect the taxpayers from excessive spending and taxation; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Joint Legislative Audit and Review Commission be directed to analyze the growth in spending by the Commonwealth since Fiscal Year 1981. In conducting the study, the Commission shall consider, among other things, (i) an identification and analysis of spending functions and programs that could be consolidated with other programs without diminishing the quality of the services provided to the citizens of the Commonwealth; (ii) an identification and analysis of those spending functions or programs that no longer have a distinct and discernible mission or are not performing their missions efficiently; (iii) an identification and analysis of the state programs that have had the largest impact on the growth of state spending over the prior 10 biennia, in dollar terms; (iv) an identification and analysis of the programs growing the fastest in percentage terms; (v) for the programs identified as the largest and fastest-growing, comparisons of the growth in spending on those programs to the rate of increase in inflation and the growth in populations served by those programs over a comparable time period; (vi) an analysis of the causes for the growth in spending on the largest and fastest-growing programs, and whether the growth in spending appears rationally related to the rates of increase in inflation and populations served; (vii) an analysis of the use of performance budgeting, performance measurement, and program evaluation information in the legislative budgeting process and how the information may be more systematically used for program improvement and budget decision-making by legislators; (viii) a detailed analysis of the operations and expenditures of state funds by private organizations and groups, for the purpose of demanding a full, complete and accurate accounting of those funds, as well as demonstrable evidence that the public policy goals have been accomplished by their expenditure; (ix) policies and strategies that can be instituted or restructured to more efficiently and effectively spend such funds; (x) the cancellation of programs that fail to meet the stated purpose of their funding, or fail to provide a satisfactory accounting of their expenditures; and (xi) such other related issues as it deems appropriate.

All agencies of the Commonwealth shall provide assistance to the Commission for this study, upon request.

The Joint Legislative Audit and Review Commission shall submit preliminary findings and recommendations by November 30, 2001, to the Governor and the 2002 Session of the General Assembly, and the Commission shall complete its work in time to submit its final written findings and recommendations by November 30, 2002, to the Governor and the 2003 Session of the General Assembly as provided in the procedures of the Division of Legislative Automated Systems for the processing of legislative documents.

Appendix B
State Agencies

	Agency Code
1. Accounts, Department of	151
2. Administration, Secretary of	180
3. Aging, Department of	163
4. Agriculture Council, Virginia	307
5. Agriculture and Consumer Services, Department of	301
6. Alcoholic Beverage Control, Department of	999
7. Arts, Virginia Commission for the	148
8. Attorney General and Department of Law[4]	141
9. Auditor of Public Accounts	133
10. Aviation, Department of	841
11. Bar, Virginia State	117
12. Board of Bar Examiners	233
13. Business Assistance, Department of	325
14. Capitol Police, Division of	961
15. Central Appropriations	724
16. Charitable Gaming Commission	173
17. Chesapeake Bay Local Assistance Department	408
18. Chippokes Plantation Farm Foundation	319
19. Christopher Newport University	242
20. College Building Authority, Virginia	941
21. Commerce and Trade, Secretary of	192
22. Commonwealth Competition Council	169
23. Commonwealth University, Virginia	236
24. Commonwealth's Attorney's Services Council	957
25. Commonwealth, Secretary of	166
26. Community College System, Virginia	260
27. Compensation Board	157
28. Comprehensive Services for At-Risk Youth and Families	200
29. Conservation and Recreation, Department of	199
30. Cooperative Extension & Agricultural Research Services & Experimental Station	229, 234
31. Corporation Commission, State	171
32. Correctional Education, Department of	750
33. Corrections, Department of	799
34. Council of Higher Education for Virginia, State	125
35. Criminal Justice Services, Department of	140
36. Criminal Sentencing Commission, Virginia	160
37. Deaf and Hard-of-Hearing, Department for the [6]	751
38. Department for the Visually Handicapped	702
39. Disabilities, Virginia Board for People with	606

120.	Roanoke Higher Education Authority	935
121.	Science Museum of Virginia	146
122.	Social Services, Department of	765
123.	Southeastern Universities Research Association, Inc.	936
124.	Southwest Virginia Higher Education Center	948
125.	State Internal Auditor, Department of the	150
126.	State Police, Department of	156
127.	Supreme Court [9]	111
128.	Taxation, Department of	161
129.	Technology Planning, Department of	137
130.	Technology, Secretary of	184
131.	Tourism Authority, Virginia	320
132.	Transportation, Virginia Department of	501
133.	Transportation, Secretary of	186
134.	Treasury Board	155
135.	Treasury, Department of	152
136.	University of Virginia (includes UVA Medical Center)	207
137.	University of Virginia's College at Wise	246
138.	University, Virginia State	212
139.	Veterans Care Center Board of Trustees, Virginia	128
140.	Veterans' Affairs, Department of	131
141.	Virginia Alcohol Safety Action Program	413
142.	William and Mary in Virginia, The College of	204
143.	Workers' Compensation Commission	191

1. The 15 mental health institutes and mental retardation treatment centers, and grants to localities for mental health and mental retardation services are included within DMHMRSAS.
2. The 13 legislative commissions, legislative automated systems, interstate organization contributions, and legislative reversion account are included within the Division of Legislative Services.
3. Woodrow Wilson Rehabilitation Center is included within the Department of Rehabilitative Services.
4. The Division of Debt Collection is included within the Department of Social Services.
5. Direct Aid to Public Education is included within the Department of Education.
6. The Rehabilitative Center for the Blind is included within the Department for the Visually Handicapped.
7. Virginia Tech Extension Research Services and the Experiment Station are included in Virginia Polytechnic Institute and State University.
8. Virginia Schools for the Deaf and Blind at Staunton and Hampton are included in the Department of Education.
9. The Supreme Court includes the magistrate system, juvenile and domestic relations district courts, combined district courts, general district courts, circuit courts, and the court of appeals.

Source: 2000 Acts of Assembly, Chapter 1072, index, with adjustments as shown.

Appendix C

Partial Listing of Agency and Program Initiations, Consolidations, and Abolishments

(Based on a review of enacted legislation, by year of enactment)
1994 - 2001

SUMMARY:

	Created	Abolished	Transferred	Name Change	Sunset Removed	Consolidation
1994	7	1		1	1	1
1995	17	1	2	1		
1996	18	11	3	1	2	
1997	4	1				
1998	12	1	1			
1999	18		2			
2000	18		1	2		
2001	11	1	2	1		3
TOTALS	105	16	11	6	3	4

1994: 7 created, 1 abolished, 1 name change, 1 sunset clause removed, 1 consolidation

- Debt Capacity Advisory Committee created, to estimate the State's tax-supported debt capacity and advise the Governor and General Assembly (HB 264)
- Name change: A.L. Philpott Manufacturing Center (HB 197, SB 64)
- Consolidates Virginia Guaranteed Assistance Program in the State Council for Higher Education in Virginia (HB 781)
- Virginia Higher Education Tuition Trust Fund created (HB 993).
- Virginia Crime Prevention Center created in the Department of Criminal Justice Services (HB 1114)
- Virginia Technology Council created (HB 1199, SB 312)
- Cooperative Tourism Advertising Fund created in the Department of Economic Development, contingent on appropriations (HB 1291)
- Haymarket Transportation Program created, a part of Disney's America project (HB 1294)
- Local Anti-Drug Trust Fund repealed (HB 1364)
- Correctional Enterprises Advisory Board created, to advise Department of General Services (SB 191)
- Physician Loan Repayment Program created in Department of Health (SB 409)
- Sunset clause removed for Commission on Equality in Public Education (SB 547)

1995: 17 created, 2 transfer of duties, 1 name change, 1 abolished

- Assigns the Innovative Technology Authority to the Secretary of Commerce and Trade. (HB 1842)
- Toxic Substances Advisory Board abolished (HB 1849)
- Virginia Juvenile Community Crime Control program created within Department of Youth and Family Services. (HB 1849)
- Virginia Higher Education Tuition Trust Fund Board established. (HB 1986)
- Virginia Initiative for Employment Not Welfare (VIEW) established, to replace Aid to Families with Dependent Children. (HB 2001)
- Virginia Abandoned Waste Site Authority established to provide financing for the cleanup of abandoned solid and hazardous waste sites. (HB 2040)
- Community of Readers Program established within the Department of Education. (HB 2163)
- Virginia Higher Education Incentive Program and Fund established, to be administered by the Department of Correctional Education and SCHEV, to provide financial assistance to persons who are incarcerated in state correctional institutions and who are enrolled in degree-granting programs at institutions of higher education. (HB 2177)
- Commercial Space Flight Authority created. (HB 2199)
- Virginia Public School Construction Grants Program and Fund created. (HB 2240)
- Virginia Economic Development Partnership established as a political subdivision of the Commonwealth, with intention of transferring duties of the Department of Economic Development to it. (HB 2293)
- Virginia Medical Savings Account Plan established, with assistance from the Departments of Medical Assistance Services, Workers' Compensation, and Taxation and the Bureau of Insurance within the State Corporation Commission. (HB 2337)
- Virginia Sheep Industry Board created (HB 2516)
- Small Business Commission created as a legislative agency. (SB 673)
- Historic Resources Fund established, to be administered and managed by the Department of Historic Resources. (SB 779)
- Child Fatality Review Team established, to be chaired by the Chief Medical Examiner. (SB 901)
- Virginia Chesapeake Bay Partnership Council created as a legislative agency. (SB 953, HB 2251)
- Virginia Assistive Technology Loan Fund created. (SB 985)
- Virginia Veterans Cemetery Board created to advise the Department of Veterans' Affairs. (SB 1071)
- Emergency Management Assistance Compact established between Virginia and several states. (SB 11)

<u>1996: 18 created, 11 abolished, 3 transfers of duties, 1 name change, 2 sunset clauses removed.</u>

- Blue Ridge Regional Education and Training Fund created, for the support of education and training programs of the Council. (HB 303)
- "Economic Development Contingency Fund" and the "Governor's Development Closing Fund" abolished; replaced with the "Governor's Development Opportunity Fund." (HB 306)
- Commission on Early Childhood and Child Day Care Programs made permanent by removing the provision that the Commission will expire on July 1, 1996. (HB 331, SB 270)
- The Council on Child Day Care and Early Childhood Programs and its supporting agency abolished. (HB 569)
- Boot Camp Incarceration Program in Department of Corrections made permanent by elimination of sunset clause. (HB 377, SB 433)
- Semiconductor Manufacturing Performance Grant Program established, limited to Goochland county. (HB 495, SB 238)
- Semiconductor Memory or Logic Wafer Manufacturing Performance Grant Program established to encourage the manufacturing of semiconductor wafers in Manassas. (HB 493, SB 253)
- Agricultural Development Authority abolished. (HB 528)
- Council on Local Debt abolished. (HB 599, SB 173)
- Consumer Services Advisory Board established within Department of Agriculture and Consumer Services. (HB 886)
- Commercial Space Flight Authority authorized to appoint an industry advisory board. (HB 938)
- Virginia Information Providers Network Authority created. (HB 1023, SB 507)
- Virginia Motor Vehicle Scrappage Program abolished; Virginia Motor Vehicle Emissions Reduction Program created in its place. (HB 1060, SB 305)
- Name of the Department and Board of Youth and Family Services changed to the Department and Board of Juvenile Justice. (HB 1096)
- Virginia Technology Infrastructure Fund created; to be administered by the Council on Information Management. (HB 1168)
- School-To-Work Transition Grants Program created, to be administered by the Board of Education. The School-To-Work Transition Fund also created, a special non-reverting fund. (HB 1193)
- Hampton Roads Sports Facility Authority created. (HB 1234)
- Laboratory Services Advisory Board eliminated within the Department of General Services. (HB 1262, SB 185)
- State Insurance Advisory Board eliminated within the Department of General Services. (HB 1263, SB 557)

- Virginia-Israel Advisory Board created, to advise the Governor. (HB 1325)
- Agricultural Stewardship Act created; establishes a program within Department of Agriculture and Consumer Services to address water quality problems. (HB 1329)
- Minorities in Teaching Program established to increase the number of minorities pursuing careers in teaching; to be administered by the Board of Education. (HB 1331)
- Department of Economic Development abolished and some of its responsibilities assigned to the newly created Department of Business Assistance. (HB 1449, SB 610)
- Division of Forensic Science transferred from the Department of General Services to the Department of Criminal Justice Services. (HB 1485, SB 593)
- Regional Competitiveness Program established, administered by the Department of Housing and Community Development. (HB 1515, SB 566)
- Operations, employees, and obligations of the Medical College of Virginia Hospitals (MCV) transferred to the Medical College of Virginia Hospitals Authority, a newly created political subdivision of the Commonwealth. (HB 1524, SB 607)
- “Motor voter program” provides for registration of voters by mail and at the offices of the Department of Motor Vehicles, public assistance agencies, agencies primarily providing services to the disabled, armed forces recruitment offices, Game and Inland Fisheries regional offices and certain Virginia Employment Commission offices. (SB 101)
- Virginia World Trade Council abolished. (SB 223)
- Immigrant and Refugee Policy Council abolished as an executive branch agency; created as a legislative branch agency with the Division of Legislative Services to provide staffing. (SB 379)

<u>1997: 4 created, 1 abolished</u>

- World Technology Fair Commission abolished (HB 1571)
- Council on Geographic Information created (HB 1597)
- Water Quality Improvement Program established (SB 1131)
- Interagency Migrant Worker Policy Committee established, and directed to coordinate with Migrant and Seasonal Farmworker’s Board (SB 1142)
- Virginia Innovative Remedial Education Program established (SB 1158)

<u>1998: 12 created, 1 abolished, 1 transfer of duties</u>

- Southside Virginia Marketing Council abolished (HB 556)
- Clean Water Farm Award Program created (HB 807)
- Workforce Training Council created (HB 851, SB 383)

- Virginia Undergraduate and Vocational Incentive Scholarship Program created; to be administered by State Council for Higher Education in Virginia (HB 917)
- Coalfield Educational Empowerment Program established; to be administered by Department of Education (HB 977)
- School Nurse Incentive Grants Program and Fund, to be administered by Board of Education (HB 1060)
- Cemetery Board established in Department of Professional and Occupational Regulation (HB 1077, SB 700)
- Duties of Private Enterprise Commission transferred to Commonwealth Competition Council (HB 1301)
- Commonwealth Character Initiative unit established within Department of Education (HB 1344)
- Virginia New Hire Reporting Center established within Department of Social Services, Division of Child Support Enforcement (HB 1374)
- Rappahannock River Basin Commission authorized under certain conditions (SB 598)
- Charity Food Assistance advisory board created; to advise Board of Agriculture & Consumer Services (SB 681)
- Southern Dairy Compact Commission created (SB 683)
- Economic and Improvement Program for Disadvantaged Persons created in Governor's Employment and Training Department (SB 699)

<u>1999: 18 created, 2 transfers of duties</u>

- Virginia Law Officers' Retirement System (VaLORS) created (HB 715)
- Capitol Square Preservation Council established (HB 1206)
- Families in Education Incentive Grant Program created, to be administered by Board of Education (HB 1270)
- School Resource Officers Grants Program and Fund established, to be administered by Department of Criminal Justice Services (HB 1445)
- Virginia Tourism Authority created; duties transferred from Virginia Economic Development Partnership (HB 2702, SB 1142)
- Secretary of Technology established (HB 1727, SB 808)
- Volunteer Firefighters' and Rescue Squad Workers' Pension Fund established, with the assistance of Virginia Retirement System (HB 2023)
- National Teachers Certification Incentive Award program, to be administered by Board of Education (HB 2087, HB 2710, SB 1145)
- Caregivers' Grant Program created, to be administered by Department of Social Services (HB 2193, SB 910)

- Public School Educational Technology Grants Program and Trust Fund created, to be administered by Board of Education (HB 2241)
- Estuarial and Coastal Reserve Research System created, to be administered by Virginia Institute of Marine Science (HB 2401)
- Advanced Communications Assistance Fund created, to be administered by Innovative Technology Authority (HB 2436)
- Capital Access Fund for Disadvantaged Businesses created, administered by Virginia Small Business Financing Authority (HB 2506)
- Removal or Renovation of Derelict Structures Fund created, administered by Department of Housing and Community Development (HB 2577)
- Workforce Training Access Program and Fund established, administered by Secretary of Finance (HB 2585)
- Teaching Scholarship Loan Program created, administered by Board of Education (HB 2607)
- Tobacco Indemnification and Community Revitalization Commission created (HB 2635, SB 1165)
- Academic Opportunities Pilot Program created, to be administered by Board of Education (SB 1263)
- Transfer of Department for Rights of Virginians with Disabilities from Secretary of Health and Human Resources to Secretary of Administration (by Executive Order)

<u>2000: 18 created, 1 transferred, 2 name changes</u>

- Virginia Center for School Safety created within Department of Criminal Justice Services (HB 391)
- Ft. Pickett police force created within Department of Military Affairs (HB 799)
- Transfer of Truck Weigh Station program from VDOT to DMV (by Executive Order 70(00))
- Creates the Coalfield Coalition Authority, subject to authority of Commonwealth Transportation Board (HB 910, SB 661)
- Northern Neck-Middle Peninsula Public Education Consortium created, to promote educational initiatives for students from that region, subject to appropriations (HB 927)
- Western Virginia Public Education Consortium created, subject to appropriations (HB 1009)
- Office of Inspector General created within Department of Mental Health, Mental Retardation, and Substance Abuse Services (HB 1034)
- Dentist Loan Repayment program established, administered by Board of Health (HB 1075)

- Tourist Train Development Authority created, administered by Department of Treasury (HB 1114)
- US 29 Corridor Development fund established, not effective unless appropriations are provided by 2005 (HB 1172)
- Name change: from Department of Employee Relations Counselors to Department of Employment Dispute Resolution (HB 1177, SB 732)
- Respite care services fund established in Department of Aging, subject to appropriations, created by HB 1200. SB 518 creates same program without appropriation contingency.
- Mental Health, Mental Retardation, and Substance Abuses Services Trust Fund established (HB 1293, SB 731)
- Workforce Development Training Fund established, under control of Workforce Training Council (HB 1340)
- Advantage Virginia Incentive Foundation and fund established (HB 1528)
- Live in Our Community Police Housing program created in Department of Housing and Community Development (SB 87)
- Name change: from Department of Personnel and Training to Department of Human Resource Management (SB 441)
- Extended School Year Incentive Program established, administered by the Board of Education, contingent upon appropriations (SB 545)
- Live Horse Racing Compact created (SB 598)
- Housing Revitalization Zone program created, administered by Department of Housing and Community Development (SB 711)
- Maritime Incident Reporting Advisory Board created, to receive staff support from Virginia Port Authority (SB 739)

<u>2001: 11 created; 1 abolished, 3 consolidated; 2 transfers; 1 name change</u>

- Board of Accountancy established as separate State agency; old board within Department of Professional and Occupational Regulation abolished (SB 1080)
- Thermal Imaging Grant Fund established within Department of Fire Programs, contingent on 2001 appropriation (HB 1745, SB 1109)
- Merges three boards into new Virginia Council on Human Resources, to advise Governor and directors of Departments of Human Resources and Employee Dispute Resolution (HB 2137, SB 1117)
- Virginia Tech/Montgomery Regional Airport Authority created (HB 2273?SB 1170)
- Hampton Roads Museum Consortium created (may not involve any State agencies; appears limited to accredited private museums only) HB 2495
- Chesapeake Regional Olympic Games Compact created, interstate entity aimed at procuring the 2012 Olympics (HB 2699)

- Virginia Research and Technology Commission created, to advise the Governor on appropriate research and technology strategies for the Commonwealth (HB 2743)
- Law Enforcement Accreditation Center established within Department of Criminal Justice Services (HB 2860)
- Requires VDOT to employ an assistant commissioner for environment, transportation planning, and regulatory affairs (HB 2422, SB 1046)
- Transfers fleet management functions from VDOT to Department of General Services (HB 2419, SB 1048)
- Additional grant programs created for manufacturers of semiconductors, to be administered by Virginia Economic Development Partnership (SB 1109)
- Name of agricultural vitality program changed to office of farmland preservation within Department of Agriculture and Consumer Services, new duties prescribed (SB 1160)
- Advisory Council on the Future of Nursing established, to advise Secretaries of Education and Health & Human Resources (SB 1378)
- Bond issuance and management activities transferred from VDOT to Treasury Department (by authority of Secretary of Finance)

APPENDIX D

Ten Largest General Fund Increases Each Year, 1994-2000

10 Largest Increases in 2000-2002 Budget made by 2000 General Assembly
Based on Money Committee Summary of 3/22/00

Rank	Agency	Program	GF
1.	Central Accounts	Personal Property Tax Relief Program	$878.0
2.	DOE	Fully Fund Direct Aid (SOQ, Incentive Funds, Categoricals)	$497.7
3.	VDOT	Stabilize & Update 6-year Construction Program	$307.3
4.	Treasury	Revenue Stabilization Fund FY01 & FY02	$266.4
5.	DMAS	Medicaid- Increased Utilization & Inflation	$173.8
6.	Central Accounts	Salary Increase, State Employees (3.25% @11/25/00)	$127.3
7.	Capital Outlay	Maintenance Reserve	$100.0
8.	DOE	2.4% Teacher Salary Increase @ 12/1/00	$88.9
9.	Capital Outlay	Infrastructure/Life Safety Projects	$63.7
10.	Colleges & Univs.	Maintain Faculty Salaries @60% of Peers	$59.7
	Sub-total, Top 10		$2,562.8
	Total of all adjustments, 2000 Session		$3,672.8
	Top 10 as Percent	Of Total	69.8%

10 Largest Increases in 1998-2000 Budget made by 1999 General Assembly
Based on Money Committee Summary of 3/8/99

Rank	Agency	Program	GF
1.	DOE	Re-direct Lottery Profits to Localities + Hold Harmless	$275.6
2.	DCJS	HB599	$98.9
3.	Treasury	Revenue Stabilization Fund	$79.1
4.	Colleges & Univs.	20% Tuition Reduction for Va. Undergraduates	$75.4
5.	DEQ	Water Quality Improvement Fund Payment	$45.2
6.	DMHMRSAS	Community Services for Mentally Ill & Mentally Retarded	$41.4
7.	Central Accounts	State Employee 4% Salary Increase, State-Paid Local Employees: 2.25% in FY2000	$38.6
8.	DOE	Teacher Salary Increase, 6% @ 1/4/00	$39.8
9.	various	Year 2K Compliance	$34.8
10.	Central Accounts	Replace Special Funds for Capital	$19.9
	Sub-Total, Top 10		$748.7
	Total, all adjustments, 1999 Session		$1,215.1
	Top 10 as % Total		61.6%

10 Largest Increases in 1998-2000 Budget made by 1998 General Assembly

Based on Money Committee Summary of 3/30/98

Rank	Agency	Program	GF
1.	Central Accounts	Personal Property Tax/School Construction	$533.0
2.	DOE	SOQ Accounts Updated/Sales Tax Revenue	$350.2
3.	Treasury	Revenue Stabilization Fund FY99 & FY00	$238.8
4.	Central Accounts	State & Local Employee Pay Increase Dec 98+99	$150.0
5.	DMAS	Medicaid Utilization & Inflation	$111.7
6.	DOE	Teacher Salaries: 2.25% each yr	$97.1
7.	Colleges & Universities	Faculty Salaries: Move Toward 60th Percentile	$72.5
8.	Capital Outlay	Maintenance Reserve	$51.3
9.	Non-States	Non-State Agencies	$46.6
10.	DOE	K-3 Reduced Class Size/Enrollment/All Schools	$45.5
	Sub-Total, Top 10		$1,696.7
	Total, all appropriation adjustments, 1998 Session		$3,007.0
	Top 10 as % of Total		56.4%

10 Largest Increases in 1996-1998 Budget made by 1997 General Assembly

Based on Money Committee Summary of 3/5/97

Rank	Agency	Program	GF
1.	Central Accounts	State & Local Employee Pay Increase + Lag Pay Transition	$45.8
2.	DOC	New prisons, probation officers & services	$39.6
3.	Comp. Services Act	Caseload Increases & Cost Containment	$27.8
4.	DOE	Teacher Salaries (4.0% @ 1/1/98)	$19.7
5.	Colleges & Universities	Faculty Salaries (average 5.5% 1/1/98)	$18.7
5.	DJJ	Juvenile Correctional Centers & related costs	$18.7
7.	Treasury	Revenue Stabilization Fund	$17.7
8.	Compensation Board	Jail staffing, per diems, expanded jail contracting	$15.5
9.	DEQ	Water Quality Improvement Fund	$15.0
10.	DSS	Develop & implement ADAPT	$10.9
	Sub-Total, Top 10		$229.4
	Total, all appropriation adjustments,1997 Session		$439.9
	Top 10 as % of Total		52.1%

10 Largest Increases in 1998-2000 Budget made by 1996 General Assembly
Based on Money Committee Summary of 3/22/96

Rank	Agency	Program	GF
1.	DOE	State Share of SOQ	$406.4
2.	DMAS	Medicaid Utilization & Inflation	$123.0
3.	Treasury	Revenue Stabilization Fund (2 years)	$107.3
4.	Colleges & Universities	Faculty Salary Increase (Yr 1: 5% average; Yr 2: 2.0%)	$79.6
5.	Central Accounts	Classified Salary Increase (Yr1: 4.35%; Yr2: 2.0%)	$73.5
6.	DOE	School Employee Salary Increase (Yr1: 1.75%; Yr2: 2.0%)	$70.0
7.	Treasury	VPBA/GO Bonds/Regional Jails	$48.1
8.	DOE/CSA	Comp. Services Act-additional state funding	$39.9
9.	Compensation Board	Positions for new jails	$25.9
10.	DMAS	Rehabilitation Lawsuit	$25.3
	Sub-Total, Top 10		$999.0
	Total, all "major" increases (over $1 million)		$1,537.6
	Top 10 as % of Total		65.0%

10 Largest Increases in 1994-1996 Budget made by 1995 General Assembly
Based on Money Committee Summary of 5/31/95

Rank	Agency	Program	GF
1.	Central Accounts	Second payment on Harper Settlement	$70.0
2.	DOC	Increased Double Bunking; New Facilities	$44.6
3.	DOE	Restore Cuts in Direct Aid to Education	$22.2
4.	Compensation Board	Jail Per Diems; Jail Staff	$19.3
5.	Central Accounts	Restore Classified Employees' Salary Increase	$16.2
6.	DYFS (DJJ)	Local Youth Detention Construction & Operations	$12.6
7.	VPI&SU	Restore Cooperative Extension, Ag & Forestry Research	$12.2
8.	DSS	Fed Mandates: Day Care/Job Training/Wage & Tax Withholding	$10.9
9.	DOC	Local & Regional Jail Construction	$10.8
10.	Compensation Board	Restore funds: Local Treasurers & Commissioners of Revenue	$8.7
	Sub-total		$227.5
	Total, all appropriation adjustments, 1995 Session		$433.8
	Top 10 as % of Total		52.4%

10 Largest Increases in 1994-1996 Budget made by 1994 General Assembly
Based on Money Committee Summary of 3/94

Rank	Agency	Program	GF
1.	Central Accounts	Salary Increase: State, Local, Teachers, Faculty	$253.6
2.	DMAS	Medicaid Utilization & Inflation	$234.3
3.	DOE	SOQ Funding for Public Schools	$170.7
4.	DOE	Reduce Literary Fund Transfer for Teacher Retirement	$92.6
5.	Capital Outlay	Capital Outlay	$81.7
6.	Treasury	Revenue Stabilization Fund	$79.9
7.	DOE	Reduce Class Size in Grades K-3	$76.0
8.	DOE	Sales Tax Increase/Basic Aid Offset	$50.5
8.	Capital Outlay	Maintenance Reserve for State Buildings	$50.5
10.	Central Accounts	Recordation Tax Distribution to Localities	$40.0
.	Sub-Total, Top 10		$1,129.8

Total, major GF appropriation adjustments, 1994 Session (over $1 million)	$1,588.1
Top 10 as % of major new GF spending	71.1%
Total, all major appropriation adjustments, 1994 Session	$2,457.0
Top 10 as % of all major appropriation adjustments	46.0%

Appendix E

Glossary of Higher Education Performance Measures

All definitions come from the Department of Planning and Budget as reported by the Auditor of Public Accounts in *Review of Performance Measures at Selected Higher Education Institutions: Report on Audit for the Year Ended June 30, 1999*.

Graduation Rate
Reflects the graduation progress of full-time, matriculated, first-time students over the last six years at an institution.
Data in this report were taken from the Student Information System and reflect the Fall 1993 Cohort (students graduating by 1999).

Progression Rate
Describes the proportion of students returning to the same institution at a higher program placed level. For example, this rate reflects the proportion of freshmen who return to the same institution for the following academic year as sophomores.
Data in this report were taken from the Student Information System and reflect the Fall 1993 Cohort (students graduating by 1999).

Retention Rate
Describes the proportion of students returning to the same institution but not progressing to a higher program placed level.
Data in this report were taken from the Student Information System and reflect the Fall 1993 Cohort (students graduating by 1999).

Persistence Rate
Describes the proportion of students returning to the same institution regardless of their program-placed level (sum of progression and retention rates).
Data are measurements of Fall 1998 students returning in 1999, taken from the Student Information System.

Number of transfer students
Reflects the number of full- and part-time students transferring from the Virginia community colleges and Richard Bland College.
Data in this report were taken from the Student Information System and describe Fall 1999 transfers.

Graduates employed in program-related work
Graduates pursuing further study
Data from alumni surveys conducted by institutions of higher education, measuring the period 7/1/98 – 6/30/99 for the graduating class of 1996, undergraduates only. Note: Virginia Polytechnic Institute and State University surveyed 1997 graduates.

Instruction as percent of Educational and General funds
Defined as the sum of programs 101, 104-10 and 104-40 divided by the sum of budget programs 101 through 107 in the Commonwealth Accounting and Reporting System.
Data from Commonwealth Accounting and Reporting System or Internal Financial Reporting System for the period 7/1/98 – 6/30/99.

Management Standards met
A 100 percent rating means the institution met all of the following criteria:

- "The institution receives an unqualified opinion from the Auditor of Public Accounts;
- The institution has no significant management comments in the Auditor of Public Accounts audit report;
- The institution meets the financial reporting requirements established by the Department of Accounts Directive;
- The institution's Perkins Loan default rate is less than 10 percent;
- The institution's percentage of accounts receivables outstanding greater than 120 days are less then 10 percent; [and]
- The institution's prompt pay percentage is 95 percent or greater."

Data are from the Auditor of Public Accounts and the Department of Accounts, Fiscal Operation Report and Application to Participate (Federal), Accounts Receivable Quarterly Report, and Commonwealth Accounting and Reporting System for the period 7/1/97 – 6/30/98.

Classroom utilization
Describes the extent to which classroom and laboratory space is used during the weekly numbers of hours of instruction offered by the institution.
Data comes from physical inventory and the Student Information System in Fall 1998.

Total credit hours per full-time equivalent faculty
Defined as the student credit hours generated divided by the number of full-time equivalent (full-time, part-time, and graduate teaching assistants) state-paid teaching and research faculty in Fall 1999.
Data derived from Commonwealth Accounting and Reporting System and Human Resources System.

Research and public service expenditures per full-time faculty
Research and public service expenditures (budget programs 102, 103, and 110) divided by the number of full-time state-paid teaching and research faculty for an Academic Year.
Data from Commonwealth Accounting and Reporting System and Human Resources System for expenditures from 7/1/98 through 6/30/99; faculty defined as academic year 1998-99 teaching and research faculty.

Appendix F

Data Development Instrument

This instrument organizes much of the data necessary to explain changes in spending by a single agency. It serves as the basis for surveys delivered to various staff members within the agency. Some sections provide an opportunity for exposure of data collected by JLARC staff to agency staff for confirmation or correction.

JOINT LEGISLATIVE AUDIT AND REVIEW COMMISSION
OF THE VIRGINIA GENERAL ASSEMBLY

Agency Spending History Data Development Instrument for:

Agency

House Joint Resolution 773 of the 2001 Virginia General Assembly, and Section 30-58.3 of the *Code of Virginia* direct the Joint Legislative Audit and Review Commission to produce a report on State spending. A copy of these study mandates is attached as Appendix A.

This data development instrument is designed to serve two purposes. First, it presents financial data, in the form of tables and figures, that JLARC staff have collected from various sources. In these cases we request that ***Agency*** staff verify the accuracy of this information and provide any necessary corrections.

The second purpose of the instrument is to ask additional questions of ***Agency*** staff. These questions tend to focus on background, budget procedures, performance and efficiency of ***Agency*** operations.

Your responses to this instrument are very important to this study and will assist us in providing the information requested by the General Assembly. We will present an interim report to the General Assembly in the fall, and a final report in the fall of 2002.

Questions or comments should be directed to ______ at *phone number*, or *e-mail address*.

Thank you for your time and effort.

Respondent Information:

Name ______________________________________
Title ______________________________________
Phone ______________________________________
e-mail ______________________________________

A. AGENCY MISSION

1. JLARC staff identified the following mission or authority for ***Agency*** in the *Code of Virginia*.

Is this a satisfactory representation of the official mandate of ***Agency***?
☐ Yes
☐ No ⇒ Please provide additional *Code of Virginia* sections that should be included.

2. JLARC Staff have identified the following elaboration of, or operational version of, ***Agency***'s mission and vision statement.

Source:

Is this an accurate assessment of ***Agency***'s operational mission?
☐ Yes
☐ No ⇒ Please elaborate on this operational mission.

B. BUDGET DEVELOPMENT PROCESS

3. Does ***Agency*** develop a strategic plan?
☐ No
☐ Yes ⇒ Please provide a copy, in Word, format if possible **and** describe below how ***Agency*** uses the strategic plan in budget development

4. Does ***Agency*** perform an expenditure or caseload forecast of any type or method?
☐ No ⇒ Please skip to question 9.
☐ Yes

5. What is the role of expenditure or caseload forecast(s) in ***Agency***'s budget process?

6. To what extent is ***Agency***'s budget linked to these forecasts?

7. What methods are used to forecast ***Agency*** expenditures?

8. What data series are forecast?

9. How does ***Agency*** management prioritize budget requests?

10. How have ***Agency***'s year-end balances been dealt with by DPB?

11. How does ***Agency*** monitor its expenditures during the budget cycle?

12. What revenues received by ***Agency*** fall under these broad fund types type?

Special

Higher Education

Commonwealth Transportation

Enterprise

Trust and Agency

Debt Service

Dedicated Special Revenue

Federal Trust (Please identify specific federal programs providing these funds.)

C. APPROPRIATION AND SPENDING HISTORY

13. FY 2000 appropriations for ***Agency***, as recorded in Chapter 1072 of the Acts of Assembly, are shown in Table 1, ***Agency*** FY 2000 Appropriations.

Please verify that this information is accurate and provide any necessary corrections along with explanations for these corrections.

14. FY 2000 expenditures for ***Agency***, as reported by CARS, are shown in Table 2, ***Agency*** FY 2000 Expenditures.

Please verify that this information is accurate and provide any necessary corrections along with explanations for these corrections.

15. At what level of detail does ***Agency*** maintain financial data, for internal planning purposes, or external reporting purposes, that differ from the appropriations structure used in the appropriation act?

16. In what system is this data maintained?

17. Can ***Agency*** provide annual expenditure data, by program and fund, for some or all of the period between FY 1981 and FY 2000?

☐ No
☐ Yes ⇒ Please provide any available expenditure data for this period in Excel format.

18. Table 3, ***Agency*** Appropriation History by Fund Type, presents ***Agency*** appropriations since 1981.

Please verify that this information is accurate and provide any necessary corrections along with explanations for these corrections.

19. Figures 1 through _____ plot this appropriation data. Referring to these figures, JLARC staff identified the following notable events or patterns in ***Agency*** appropriations history. What are the explanations for, or most likely causes of these events?
(Events are identified on the relevant figures by their letter here.)

a. _____ (Figure X)

b. _____ (Figure X)

c. _____ (Figure X)

d. _____ (Figure X)

e. _____ (Figure X)

f. _____ (Figure X)

20. In addition to the appropriation and funding changes identified in item 19, what additional events or trends would you classify as the most important in driving agency spending since FY 1981? These might include federal mandates, Virginia legislation, technology issues, extraordinary inflation, etc. ***Please limit your response to the five or six most significant issues or events.***

Year or Years of Event	Event and Brief Description

D. POPULATIONS SERVED

21. What major populations are served by ***Agency***?

Population Name	Definition or Brief Description of the Population

22. Please provide, in Excel format, the annual levels of these populations since FY 1981, if possible.

23. Does ***Agency*** maintain agency per-unit costs for these populations?
☐ No
☐ Yes ⇒ Please provide any historic expenditures or per-unit costs of these populations served, in Excel format.

E. INFLATION

24. What inflation indices should JLARC staff use to adjust your agency's spending for price increases since 1981? Explain why these price indices should be used.

F. PERFORMANCE MEASURES and PROGRAM EVALUATIONS

25. Table 4 shows the performance measures maintained by DPB for ***Agency***.

a. How does ***Agency*** management use these measures in budgeting, control or planning? Please provide specific examples if possible.

b. How do ***Agency*** budget analysts use these measures in budgeting or program evaluation? Please provide specific examples if possible.

26. Does ***Agency*** conduct program evaluations of internal programs or functions?
☐ No ⇒ Please skip to question 29.
☐ Yes

27. What program evaluations have been completed since FY 1998?

How can JLARC staff obtain copies of these evaluations if the need arises during the course of this review?

28. Have these evaluations been used in developing the agency's budget?
☐ No
☐ Yes ⇒ Please indicate how these evaluations have been used in budgeting decisions.

G. EFFICIENCY AND CONSOLIDATION

29. What significant initiatives has ***Agency*** undertaken since FY 1997 to increase the efficiency with which it pursues its mission?

30. What program consolidations have involved ***Agency*** within the agency in the last two biennia? (This could include assignment of another agency's responsibilities to ***Agency*** or ***Agency*** responsibilities being assigned to another agency.)

31. What program cancellations have occurred within ***Agency*** in the last two biennia?

H. ADDITIONAL AGENCY SPECIFIC QUESTIONS

(These may address agency or program structure changes such as consolidations and splits in agency responsibilities.)

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